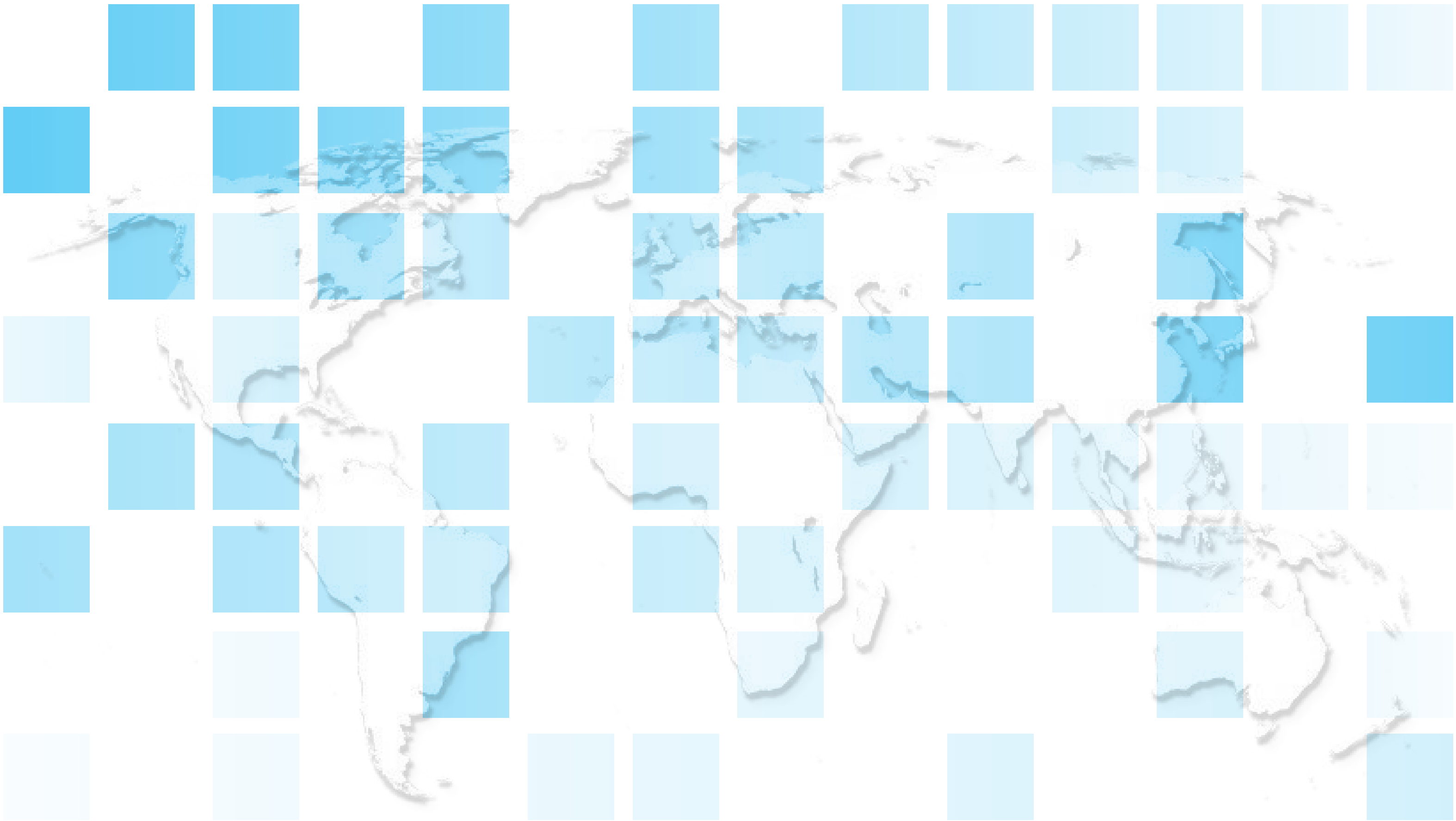

FIMBANK
GROUP

annual report & financial statements 2013

FIMBANK
GROUP

annual report &
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chairman's statement to the shareholders

John C. Grech, FIMBank Group Chairman

During 2013, the markets in which the FIMBank Group is active remained affected by generally challenging economic conditions. However, we continued to see encouraging opportunities in international trade finance. In the year in review FIMBank pursued with even greater vigour the development of its franchise with existing and new reputable corporate customers, while maintaining its focus on providing global trade finance solutions.

In 2013, the Group's operating performance increased by a healthy 13 per cent over the previous year with substantially the same resources available. Positive operating results were posted by both FIMBank and London Forfaiting Company Ltd (LFC), while Menafactors also enjoyed a good year as the outlook for business in the MENA region continued to strengthen. Results from the main associated companies in Egypt, Russia and India were mixed, while Brasilfactors continued to face start-up challenges in line with the build-up of its portfolio. Unfortunately, the FIMBank Group's bottom line at the end of 2013 was affected by considerable asset impairment charges and as a result the Group registered a loss of USD4.22 million in 2013, compared with a profit of USD8.80 million during 2012. Notwithstanding, the Group's Balance Sheet saw considerable growth, with Total Consolidated Assets as at 31 December 2013 standing at USD1.24 billion, an increase of 9 per cent over end-2012 figures.

The Board of Directors will not be recommending the payment of a dividend. However, a resolution proposing a 1 for 10 Bonus Issue of Ordinary Shares by way of capitalisation of the Share Premium Account will be presented to the Annual General Meeting of shareholders.

A landmark development, which will define the future of the Group, was the investment by Burgan Bank and UGB, two highly reputable financial institutions forming part of the Kuwaiti conglomerate KIPCO Group, which have now acquired an 80 per cent stake in FIMBank. In fact, this project started to gather serious momentum in the second half of 2013 with the injection of new capital, followed by the extension of funding support later in the year. With this move comes the anticipation of significantly improved prospects to take on new and more relevant business opportunities, to benefit from better funding resources and therefore strengthen the Group's operating performance even further.

The improvement in the operating performance registered by the Group in 2013 reflects our resilient trade finance-based model, a proven business model that has been tested and refined for 18 years. Meanwhile, the global economic outlook for 2014 seems to be cautiously optimistic. Trade finance remains essential to the functioning of the world's economies. Our strategy, based on product and market diversification, continues to spur the Group's growth and the expansion of its global footprint. Going forward, we intend to maintain the focus on our core expertise and track record in trade finance. Attention to the basics of good banking, prudence and discipline will continue to underline all our operations. Moreover, customer-focus, dynamism and innovation will remain the driving force of the Group.

2013 also saw the inauguration of our new state-of-the-art Head Office building in Malta, a world class facility which reflects FIMBank's international scope and reputation. It is also a statement of the strong links between FIMBank and Malta. The country will this year will be celebrating 10 years since becoming a member of the European Union, remains politically stable, has a millennial tradition for trading and is strongly oriented towards the outside world. Ratings for the country remain stable and reassuring.

This year's accomplishments would not have been possible without the dedication and expertise of all our employees. I congratulate management and all our staff across the globe for the way they have handled and adapted to the challenges and change of the past years. Since my appointment, I have noted their unswerving commitment to customers and to the Group. Thanks to their individual and collective efforts, the future looks bright indeed for FIMBank. I would also like to thank my fellow Directors for their support and counsel, and I look forward to their continued contribution in the coming year.

Finally, I would like to express my heartfelt appreciation to our customers, partners and shareholders for their unwavering loyalty and the confidence they have demonstrated in our ability to ride out the difficult circumstances which have characterised the past years.

John C. Grech
Chairman

stqarrija miċ-chairman

Matul l-2013, is-swieq li fihom jopera l-Grupp FIMBank baqgħu jiġu affettwati minn kundizzjonijiet ekonomiċi ta' sfida. Madankollu, bqajna naraw lok għal opportunitajiet inkoraġġanti fil-qasam tal-iffinanzjar tal-kummerċ internazzjonali. F'din is-sena l-FIMBank kompla jsegwi b'aktar enerġija l-iżvilupp tan-negozju tiegħu, kemm ma' klijenti eżistenti, kif ukoll ma' dawk ġodda, filwaqt li baqa' jiffoka fuq prodotti li jipprovdu soluzzjonijiet fl-iffinanzjar tal-kummerċ.

Fl-2013, il-prestazzjoni operattiva tal-Grupp żdiedet b'rata tajba, dik ta' 13 fil-mija fuq is-sena ta' qabel. Dan ir-riżultat inkiseb sostanzjalment bl-istess riżorsi disponibbli u jirrifletti l-ħidma soda kemm tal-FIMBank kif ukoll dik ta' London Forfaiting Company Ltd (LFC). Il-kumpanija Menafactors ukoll gawdiet minn sena tajba f'perjodu meta t-tbassir għan-negozju fir-reġjun tal-Lvant Nofsani u l-Afrika ta' Fuq beda jitjieb. Ir-riżultati mill-kumpaniji assoċjati tagħna fl-Eġittu, fir-Russja u fl-Indja kienu mħallta, filwaqt li Brasilfactors kompliet taffaċċja l-isfidi li kumpanija li għada kif tiftaħ ġeneralment issib quddiemha sabiex tibni l-portafoll tagħha. Sfortunatament, ir-riżultati tal-Grupp FIMBank sa l-aħħar tal-2013 ġew affettwati minn 'asset impairment charges' li wasslu għal tnaqqis konsiderevoli fil-valur tal-assi u b'riżultat ta' dan, il-Grupp irreġistra telf ta' USD4.22 miljun, meta mqabbel ma' qliegħ ta' USD8.80 miljun matul l-2012. Minkejja dan, il-'Balance Sheet' tal-Grupp kompliet tara tkabbir konsiderevoli, bl-Assi Totali Ikkonsolidati fil-31 ta' Diċembru jkunu ta' USD1.24 biljun, żieda ta' 9 fil-mija fuq il-figuri sa l-aħħar tal-2012.

Il-Bord tad-Diretturi mhux se jirrakkomanda l-ħlas ta' 'dividend'. Madankollu, waqt il-Laqgħa Ġenerali Annwali tal-azzjonisti li jmiss, għandha tiġi mressqa riżoluzzjoni li tipproponi Ħruġ ta' Bonus b'sehem ordinarju għall kull 10 permezz ta' kapitalizzazzjoni tax-'Share Premium Account'.

Żvilupp importanti li għandu jiddefinixxi l-futur tal-Grupp kien l-investiment mill- Burgan Bank u mill-United Gulf Bank (UGB), żewġ istituzzjonijiet finanzjarji li jiffurmaw parti mill-konglomerat mill-Kuwajt, il-Grupp KIPCO, li issa kisbu sehem ta' 80 fil-mija fil-FIMBank. Fil-fatt, dan il-proġett beda juri r-riżultati tiegħu fit-tieni nofs tal-2013, permezz tal-injezzjoni ta' kapital ġdid. Dan ġie segwit mill-estensjoni ta' appoġġ finanzjarju aktar tard fis-sena. Dan l-iżvilupp riċenti għandu jwassal għal opportunitajiet ġodda u ferm rilevanti għall-futur ta' FIMBank, li issa jista' jibbenefika minn riżorsi ta' finanzjament aħjar u għalhekk jista' jkompli jsaħħaħ il-prestazzjoni operattiva tiegħu.

It-titjib fil-prestazzjoni operattiva irreġistrat mill-Grupp fl-2013 jirrifletti s-suċċess ta' mudell ibbażat fuq l-iffinanzjar tal-kummerċ, mudell sod li ilu jiġi ppruvat u rfinat għal dawn l-aħħar 18-il sena. Sadanittant, il-prospetti ekonomiċi globali għall-2014 jidhru kemmxejn ottimisti. L-iffinanzjar tal-kummerċ jibqa' essenzjali għat-tħaddim tal-ekonomiji tad-dinja. L-istrateġija tagħna, ibbażata fuq id-diversifikazzjoni tal-prodott u tas-swieq, qiegħda tixpruna t-tkabbir tal-Grupp, kif ukoll l-espansjoni globali tiegħu. B'ħarsa lejn il-futur, għandna l-ħsieb li nżommu l-enfasi fuq il-kompetenza ewlenija tagħna u nibnu fuq it- 'track record' li għandna fl-iffinanzjar tal-kummerċ. Ser inkomplu nkunu għaqlin fejn għandhom x'jaqsmu prattiċi bankarji u l-prudenza u d-dixxiplina ser jibqgħu jiġu enfasizzati fl-operazzjonijiet kollha tagħna. Barra minn hekk, l-attenzjoni għall-bżonnijiet tal-klijent, id-dinamiżmu u l-innovazzjoni jibqgħu l-forza prinċipali tal-Grupp.

Fl-2013 ġie inawgurat il-kwartieri ġenerali ġdid tagħna f'Malta. Binja bfaċilità moderna fejn id-disinn ingħata importanza ewlenija, b'investiment fit-teknoloġija u b'attenzjoni kbira biex innaqqsu l-impatt fuq l-ambjent. Din tirrifletti r-reputazzjoni internazzjonali ta' FIMBank, kif ukoll ir-rabtiet sodi bejn il-Grupp u Malta. Din is-sena, il-pajjiż ser ikun qed jiċċelebra għaxar snin minn meta sar membru tal-Unjoni Ewropea, Malta huwa pajjiż politikament stabbli, b''ratings' tajbin u bi tradizzjoni twila fil-qasam tal-kummerċ.

Il-kisbiet ta' din is-sena ma setgħux ikunu possibbli mingħajr id-dedikazzjoni u l-kompetenza tal-impjegati tagħna. Nifraħ lill-'management' u l-impjegati kollha tagħna madwar id-dinja għall-mod kif ħadmu u adattaw għall-isfidi u l-bidliet li seħħew tul dawn l-aħħar snin. Minn mindu nħtart f'dan ir-rwol, innotajt sew l-impenn kif ukoll id-dedikazzjoni tagħhom, kemm lejn il-klijenti kif ukoll lill-Grupp. Grazzi għall-isforzi individwali u kollettivi tagħhom, FIMBank għandu futur tassew sabiħ quddiemu. Nixtieq nirringrazzja wkoll lill-kollegi tiegħi fuq il-Bord għall-appoġġ u l-pariri tagħhom. Ninsab ħerqan li nkomplu naħdmu flimkien matul is-sena li ġejja.

Fl-aħħarnett, nixtieq nesprimi l-apprezzament tiegħi lill-klijenti tagħna, kif ukoll lill-imsieħba u l-azzjonisti għall-lealtà soda tagħhom u l-fiduċja li dejjem urew fl-abilità tagħna sabiex immexxu lil FIMBank 'il quddiem fiċ-ċirkostanzi diffiċli li kkaratterizzaw dawn l-aħħar snin.

John C. Grech
Chairman

بيان رئيس مجلس الإدارة

خلال عام ٢٠١٣، ظلت الأسواق التي تنشط فيها مجموعة فيم بنك (FIMBank Group) متأثرة بالظروف الاقتصادية الصعبة بشكل عام. ومع ذلك، واصلنا جهودنا في البحث عن فرص مشجعة للاستثمار في تمويل التجارة الدولية. وقامت مجموعة فيم بنك خلال العام قيد المراجعة بالسعي بمنتهى الحماس لتطوير حقوق الامتياز الخاصة بها مع عملاء حاليين وجدد من الشركات ذائعة الصيت في المجال، بينما تواصل في الوقت ذاته تركيزها على تقديم حلول متميزة في مجال تمويل التجارة العالمية.

في السياق ذاته، شهد الأداء التشغيلي للمجموعة في عام ٢٠١٣ ارتفاعاً صحياً ملحوظاً بلغ ١٣ في المائة عن العام السابق في ظل نفس الموارد المتاحة فعلياً. ونشرت مجموعة فيم بنك وشركة لندن فورفيتينغ المحدودة (LFC) نتائج تشغيل إيجابية، في حين حظيت شركة مينافاكتورز أيضاً بعامٍ جيد حيث استمر تعزيز التوقعات في قطاع الأعمال بمنطقة الشرق الأوسط. وتباينت نتائج الشركات الرئيسية المرتبطة في مصر وروسيا والهند، بينما واصلت شركة برازيلفاكتورز مواجهة الصعوبات التي تواجه الشركات الناشئة على نحو يتوازى مع تزايد محفظتها المالية. وحدث للأسف أن تأثر صافي ربح مجموعة فيم بنك بنهاية ٢٠١٣ بسبب تكبد رسوم استهلاك كبيرة للموجودات، ونتيجةً لذلك، سجلت المجموعة خسارة بلغت ٤,٢٢ مليون دولار أمريكي في ٢٠١٣، مقارنةً بتحقيق أرباح بلغت ٨,٨٠ مليون دولار أمريكي خلال عام ٢٠١٢. وبالرغم من ذلك، شهدت الموازنة العمومية للمجموعة نمواً كبيراً، مع إجمالي موجودات موحدة بلغ نحو ١,٢٤ مليار دولار أمريكي في ٣١ ديسمبر ٢٠١٣ بزيادة بلغت ٩ في المائة مقارنةً بالأرقام المسجلة في نهاية ٢٠١٢.

لن يُوصي مجلس الإدارة بتوزيع أي أرباح. ومع ذلك، سيتم تقديم مشروع قرار يقترح علاوة إصدار بمقدار سهم واحد لكل ١٠ أسهم من الأسهم العادية من خلال رسملة حساب علاوة إصدار الأسهم في الاجتماع السنوي للجمعية العامة للمساهمين.

يعد استثمار بنك برقان وبنك الخليج المتحد، وهما مؤسستان ماليتان ذات سمعة جيدة تشكلان جزءاً من اتحاد مجموعة شركة مشاريع الكويت القابضة الكويتية، والتي استحوذت الآن على حصة ٨٠ في المائة في مجموعة فيم بنك، التطور الأبرز الذي سوف يشكّل مستقبل المجموعة. وبدأ هذا المشروع في الواقع في إحداث زخمٍ مهم في النصف الثاني من ٢٠١٣ مع ضخ رؤوس أموالٍ جديد، تلاها تمديد الدعمُ التمويلي في وقتٍ لاحق من هذا العام. ويأتي مع هذه الخطوة توقعات بوجود احتمالات معززة بشكل كبير للاستفادة من فرص أعمال جديدة ذات صلةٍ أكبر، مع الاستفادة من موارد التمويل بشكلٍ أفضل مما يزيد من قوة الأداء التشغيلي للمجموعة على نحوٍ أفضل.

يعكس التحسن في الأداء التشغيلي الذي سجلته المجموعة في ٢٠١٣ أسلوبنا المرن القائم على التمويل التجاري، وهو أسلوب عمل تم اختباره وصقله على مدار ١٨ عاماً. وفي الوقت نفسه، يبدو من التوقعات الاقتصادية العالمية لعام ٢٠١٤ أنها متفائلة تفاؤلاً مشوباً بالحذر. ولا يزال التمويل التجاري ضرورياً لأداء الاقتصادات في العالم. كما لا تزال استراتيجيتنا، القائمة على أساس تنوع المنتجات والأسواق، مستمرة في تحفيز نمو المجموعة وتوسيع وجودها العالمي. ونحن عازمون في المستقبل على الحفاظ على التركيز على الخبرة الأساسية لدينا وسجلنا الحافل في مجال التمويل التجاري. وسيواصل اهتمامنا بأسس الخدمات المصرفية الجيدة وحرصنا وانضباطنا التأكيد على كل العمليات. وعلاوةً على ذلك، سيظل التركيز على العميل والديناميكية والابتكار القوة الدافعة للمجموعة.

وشهد عام ٢٠١٣ افتتاحنا لمبنى المقر الرئيسي العصري الجديد في مالطا، وهو مقر ذو طراز عالمي يعكس النطاق العالمي والسمعة التي تحظى بها مجموعة فيم بنك. كما أنه يعبر عن الروابط القوية بين مجموعة فيم بنك ومالطا. وستحتفل البلاد هذا العام بمرور ١٠ أعوام على انضمامها كعضو في الاتحاد الأوروبي واستمرار استقرارها السياسي وتقاليدها التي استمرت على مدار ألف عام في أعمال التداول التجاري وتوجهها القوي نحو العالم الخارجي. وتدل التصنيفات الخاصة بالدولة على أن مؤشراتها لا تزال مستقرة ومطمئنة.

لم يكن بالإمكان تحقيق إنجازات هذا العام لولا الإخلاص والتفاني والخبرة التي أبداها كل موظفينا. وأتوجه بالتهنئة للإدارة وكل موظفينا في جميع أنحاء العالم على أسلوبهم المبهر في التعامل والتكيف مع الصعوبات والتغيير في السنوات الماضية. كما أنني لاحظت منذ تعييني في هذا المنصب التزامهم الثابت نحو العملاء والمجموعة. وبفضل جهودهم الفردية والجماعية، يلوح في الأفق مستقبل مشرق لمجموعة فيم بنك بلا ريب. وأود أيضاً أن أتوجه بجزيل الشكر لرفقائي من أعضاء مجلس الإدارة على دعمهم ونصائحهم، وأتطلع إلى استمرار عطائهم في العام المقبل.

وأخيراً، أود أن أعرب عن تقديري العميق لعملائنا وشركائنا ومساهمينا على ولائهم وثقتهم الثابتة التي أبدوها في قدرتنا على اجتياز الظروف الصعبة التي كانت سمة السنوات الماضية

د. جون سي جريش
رئيس مجلس الإدارة

déclaration du président

En 2013, les marchés sur lesquels le groupe FIMBank est actif sont restés marqués par un contexte économique difficile. Cependant, nous avons continué d'observer des opportunités encourageantes dans le financement du commerce international. Durant cette année, FIMBank a poursuivi, le développement qualitatif de sa clientèle , tout en continuant d'offrir des solutions globales dans le domaine du financement des échanges commerciaux.

En 2013, le résultat d'exploitation du groupe a enregistré une solide hausse de 13% par rapport à l'année dernière, en disposant sensiblement des mêmes ressources. Des résultats d'exploitation positifs ont été enregistrés tant par FIMBank que par la London Forfaiting Company Ltd (LFC), tandis que Menafactors a également connu une bonne année puisque les perspectives d'activité dans la région MENA ont continué de se développer. Le bilan des principales entreprises associées en Égypte, Russie et Inde est mitigé, et Brasilfactors a continué de rencontrer certaines difficultés de démarrage liées au développement de son portefeuille. Malheureusement, le bilan du groupe FIMBank a été marqué par une dépréciation d'actifs considérable fin 2013 et, par conséquent, le groupe a enregistré une perte de 4,22 millions d'USD en 2013 contre un profit de 8,80 millions d'USD en 2012. Pour autant, le bilan du groupe s'est renforcé avec un total des actifs consolidés de 1,24 milliard d'USD au 31 décembre 2013, soit une augmentation de 9% par rapport aux chiffres de fin 2012.

Le conseil d'administration ne proposera pas de versement de dividende. Cependant, une résolution proposant l'attribution d'une action gratuite pour dix actions détenues par capitalisation du compte des primes d'émission sera présentée lors de l'assemblée générale annuelle des actionnaires.

L'investissement de 80% réalisé par Burgan Bank et UGB, deux institutions financières bénéficiant d'une excellente réputation et faisant partie du conglomérat koweitien KIPCO, représente une étape très importante, laquelle devrait conditionner l'avenir de notre Groupe. Ce projet s'est accéléré au cours du second semestre 2013 avec l'injection de capitaux suivie par l'octroi d'une facilité de financement en fin d'année. Ce changement permet à notre Groupe d'entrevoir de nouvelles opportunités transactionnelles à un coût de financement réduit, lesquelles devraient renforcer la performance du Groupe à l'avenir.

L'amélioration du résultat d'exploitation enregistré par le groupe en 2013 confirme la solidité de notre modèle commercial axé sur le financement du commerce international, modèle en constante amélioration ayant fait ses preuves depuis 18 ans. Les perspectives économiques mondiales pour 2014 sont empreintes d'un optimisme prudent et le financement des échanges commerciaux demeure indispensable à l'économie mondiale. Notre stratégie, basée sur la diversification des produits et marchés, continue de soutenir la croissance du groupe et son expansion mondiale. Dorénavant, nous entendons focaliser nos efforts sur notre expertise clé et nos bons résultats dans le financement des échanges commerciaux. Une attention particulière accordée aux principes fondamentaux d'une bonne pratique bancaire ainsi que la prudence et la discipline accompagneront toujours notre activité. Par ailleurs, l'approche clientèle personnalisée, le dynamisme et l'innovation resteront le moteur du groupe.

2013 a également vu l'inauguration de notre nouveau siège social à Malte, un immeuble intégrant les toutes dernières innovations techniques en matière environnementale. Il est également l'expression des liens étroits qui existent entre FIMBank et Malte. Le pays célébrera cette année le 10 ieme anniversaire de son adhésion à l'Union Européenne; il demeure stable sur le plan politique, a une tradition millénaire dans le domaine du commerce et il est résolument tourné vers l'extérieur. La note souveraine du pays reste stable et rassurante.

Les résultats de cette année n'auraient pas été possibles sans l'engagement et le savoir-faire de tous nos employés. Je félicite la direction et le personnel de notre groupe à travers le monde pour la manière dont ils ont relevé les défis et se sont adaptés aux changements intervenus ces dernières années. Depuis mon entrée en fonction, j'ai noté leur engagement indéfectible envers les clients et le groupe. Grâce à leurs efforts individuels et collectifs, l'avenir semble en effet prometteur pour FIMBank. Je souhaiterais également remercier les membres du conseil d'administration pour leur soutien et leurs conseils, et j'espère pouvoir compter sur leur aide au cours de l'année à venir.

Enfin, je voudrais exprimer ma profonde gratitude à nos clients, partenaires et actionnaires pour leur constante loyauté et la confiance qu'ils ont témoignée dans notre capacité à traverser les situations difficiles qui ont caractérisé ces dernières années.

John C. Grech
Président

FIMBank group review 2013

Margrith Lütschg-Emmenegger, FIMBank Group President

management commentary

I consider the Group Review a powerful tool to tell the Bank's story and strategy. It is an opportunity to provide a holistic picture of the health and prospects of the business as well as the challenges and opportunities that the organisation is facing. This commentary focuses on communicating management's perspective towards the future the objective being that of clearly defining the direction in which the organization is heading. In today's capital constrained environment I believe that a commentary that focuses on the analysis of the entity's performance and future strategy is not only valuable to existing shareholders but also critical for new investors.

the performance of global markets in 2013

Although the growth in international trade during 2013 did not live up to expectations, the year ended on a slightly more optimistic note, with indicators increasingly pointing towards a bottoming out of the economic slowdown and the prospect of a tentative recovery, at least in the short term. This optimism was mainly borne by the easing of the European sovereign debt crisis, a fall in unemployment in the United States, and an acceleration of Japan's economy during the year. Meanwhile, large developing economies showed signs of a slow-down in this period, while India's economy suffered sharp contraction. On the other hand, industrial production figures from China showed signs that it might regain its dynamism. The damper on improved prospects, however, remained the unemployment rate in the European Union, which is estimated to consume roughly one third of the world's traded goods. This remained at or near record levels throughout 2013. In the Middle East and North Africa, where many countries are in transition, regional conflict, heightened political tensions and delays in reforms continued to weigh on growth. Most oil-exporting countries continued to enjoy steady growth in the non-oil sector, supported in part by high levels of public spending.

During the year in review, Trade Finance continued making an invaluable contribution to the global market economy, successfully maintaining its reputation as the oil that powers the engine of global economic growth. After all, Trade Finance is a business built on real underlying transactions, by companies making real goods that are moved from one place to another, so real people can consume them in the real world. Compared with other financial markets, Trade Finance deals mainly in short-term maturities; the security is held in the underlying goods moved in the transaction. In 2013 Trade Finance maintained its reputation as a safe business with low risk of default for all its instruments.

a proven corporate strategy and resilient business model

Despite the prevailing challenging economic environment, which continued to call for prudence, attention to strong risk management and compliance, the year in review once again saw the FIMBank Group continue developing its franchise with reputable corporate customers, with a strong emphasis on the emerging markets, and focusing on providing structured commodity and Trade Finance solutions. FIMBank continued to demonstrate a strong and diversified business model, which allowed us to focus on our core business of cross-border Trade Finance and to react quickly to developments in the markets in which we operate.

International Team building event held at the Limestone Heritage

FIMBank sponsored art exhibition

At the same time, in line with a strategy of selective and focused diversification, we continued refining and adding new products to our trade related portfolio, thus complementing and enhancing our product offering to further improve our services.

We now boast 19 years' experience in dealing with highly specialised trade-related business, and the kind of complex commodity transactions that require a more personalised service and bespoke approach. This experience, backed by a network which extends to 11 financial centres worldwide, gives FIMBank's customers particular comfort in our expertise and commitment towards servicing their requirements to the highest professional standards.

change and innovation remain key to our success

The foundation of our offer lies in understanding the market, our expertise, and our agility. Tapping into the increasing demand for Trade Finance requires a strong understanding of this sector, and our specialist bankers are focused on trade-related business, understanding the cultural differences and diverse business practices. Moreover, our size allows us to execute key decisions more efficiently and effectively than our competitors. By leveraging these qualities, we have been able not only to maintain our client portfolio but indeed to grow. We are proud to refer to the Group's reputation as a "reliable global partner in the dynamic and specialist world of Trade Finance", a reputation underlined by an international recognition of FIMBank's commitment to offer the best service possible to its clients.

We see change and innovation as a way of thinking about and managing our business. It is woven in our culture and the way we approach issues and decision making. We remain aware of the risks of complacency and constantly challenge the status quo by looking for ways to engender innovation and creativity, not only to meet the challenging requirements of our clients, but also to mitigate the financial risks involved in trade and to retain overall profitability.

Helping our clients respond to the challenges of market conditions, and indeed our stature as an effective global player in Trade Finance, requires that we be dynamic in our approach to creating new products, ideas and structures, backed by cutting-edge technology, all the while maintaining efficient support for traditional products. This commitment has been, and will remain, an integral part of our customer promise. While retaining our focus on well-structured transactions with established corporate clients or new, reputable relationships, we acknowledge and embrace diversification as a critical component in our quest to attain our goals by opening up opportunities, maximising return while minimizing risk.

diversification underlines our strategic outlook

FIMBank's diversification across products, sectors and regions means that we are in a position to have a presence in and make an impact across the trade flows, practically from seed to store, allowing us to offer full supply chain finance. This approach has allowed us to ensure a progressive pick-up in new opportunities, particularly in commodities such as energy, metals and softs, which will continue to support healthy growth for the Group. The diverse range of services provided by FIMBank continues to facilitate excellent relationships between our clients and their associates, thus also fostering their respective business growth. The consistent pursuit of a structured diversification strategy also has risk-mitigating implications for the Group.

In 2013, London Forfaiting Company (LFC), an established leader in the forfaiting industry, experienced yet another successful year, with a substantial increase in its trading volumes but was negatively impacted by a serious fraud case whilst the Factorings JVs also suffered some worsening performance attributed to specific impairment to be taken in Russia and India which reflect particular recoverable difficulties in both markets partly reflecting the general challenging economic outlook experienced in these markets.

Bolstering our equity and balance sheet size allows us to optimise our capabilities and potential. Consequently, attracting funding, both internationally as well as locally, continued to be high on our agenda. In a major development for the future of FIMBank, the year in review saw Burgan Bank and United Gulf Bank (UGB), members of the KIPCO Group, acquiring 37.05% of shareholding in the Bank, with a view to eventually acquiring a controlling interest. As part of this process, in June FIMBank received from UGB the first USD30 million tranche of a Convertible Loan of total USD60 million.

This development effectively meant that FIMBank would be part of Middle Eastern conglomerate KIPCO Group, and predictably, this new synergy has led to an overall reduction of funding cost.

Meanwhile, during the year in review, measures were undertaken to enhance the successful Easisave product offering and develop the fixed term deposit feature, integrating it into our existing online savings solution. This was done with the launch of the Easisave Fixed Term Deposit that enables customers to open term deposits for fixed periods of between three months and three years. The idea is to eventually offer all FIMBank euro deposit products through Easisave, in line with our strategy to eventually become 100 per cent web-based in terms of retail deposit activity.

sound and efficient management

Our proven and resilient management and business model continued to be tested by the global economic conditions which prevailed in 2013. Though prudence remained a paramount consideration, we strove to seek and exploit new business opportunities in Trade Finance while being selective in pursuing potential avenues for diversification in terms of markets and services. This allowed us to respond promptly and effectively to changing circumstances, all the while maintaining a regime of sound financial and credit risk management, in line with the strong risk management culture which prevails throughout the Group and which underpins all our commercial decisions.

FIMBank Chairman with members of the FIMBank Board of Directors and President

During the period under review, we strove to further improve our risk management capabilities, ensuring that rigorous processes are in place to enable us to manage risks well and understand the risks we undertake, while still servicing clients and the community effectively in a commercially viable manner. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring, and are designed to detect operational weaknesses, such as system or process failures, documentation errors, fraud, and compliance issues.

Meanwhile, the news at the beginning of 2013 that Fitch had retained FIMBank's rating at 'BB', with a now improved stable outlook, despite the uncertainties which continued to mark global economic performance, was of considerable satisfaction to us, underlining further the fact that our strategy is understood and supported.

During the year, we continued to manage our balance sheet judiciously, enjoying healthy capital and liquidity ratios. A strong and flexible balance sheet is important in enabling us to continue to support our customers and capitalise on opportunities. We also realise that in an environment characterised by volatility, we must remain financially and operationally flexible and be ready to adapt to the world around us. Meanwhile, the stronger capital base which will result from the presence of KIPCO Group as a reference shareholder will undoubtedly contribute to further enhancing our prospects going forward. This development also bodes well for increased profitability, among others as a result of substantially lower funding costs, and enhanced returns for all shareholders.

highlights of financial results

Despite yet another positive operational performance, the FIMBank Group's bottom line for the year ended 2013 was affected by a few but fairly significant asset impairment charges and valuation losses . As a result, the Group registered an after tax loss of USD4.22 million in 2013, compared with a profit of USD8.80 million during 2012. On the other hand, the Group's Balance Sheet saw considerable growth, with Total Consolidated Assets as at 31 December 2013 standing at USD1.24 billion, an increase of 9 per cent over end-2012 figures.

The results for 2013 also show that the Group's operating performance prior to impairments, valuation losses and share of equity results, increased substantially by 13 per cent over the same period in 2012, from USD36.68 million to USD41.60 million, while Group Operating Expenses for the same period increased by 7 per cent, from USD28.49 million in 2012 to USD30.35 million in the year under review. The latter was largely due to the depreciation on the Group's new Head Office building, which became operational as from 1st July 2012. The Directors will not be recommending the payment of a dividend, while a resolution proposing a 1 for 10 Bonus Issue of Ordinary Shares by way of capitalisation of the Share Premium

Annual General Meeting 2013

Account will be presented to the Annual General Meeting of shareholders scheduled to take place on the 8th May 2014.

The positive operational performance was overshadowed by asset impairment charges and we will continue with our substantial efforts to recover part or all of the overdue balances especially in relation with our most recently impaired assets.

FIMBank now part of KIPCO

In June, we announced the completion of the first stage of a multi-step process which saw Burgan Bank and United Gulf Bank (UGB), both members of the KIPCO Group, acquiring 37.05% of shareholding in the Bank. This move followed the approval of the relevant resolutions at an Extraordinary General Meeting held at the beginning of 2013. FIMBank also received from UGB the first tranche of a Convertible Loan of USD60 million. By the end of this process, these two major Middle Eastern banks would have acquired a controlling interest in FIMBank.

This development effectively means that FIMBank now forms part of the KIPCO Group, one of the largest diversified holding companies in the Middle East and North Africa, with consolidated assets of USD26 billion. The Group has significant ownership interests in a portfolio of over 60 companies operating across 24 countries, with commercial interests ranging from financial services and media, to real estate and manufacturing. Through its core companies, subsidiaries and affiliates, KIPCO also has interests in the education and medical sectors.

This was a historic milestone for FIMBank for various reasons, not least because it will increase our capability and provide us with the potential to compete with the leaders in our market. This development will also allow FIMBank to overcome current challenges to its future growth, particularly through a stronger balance sheet, greater acceptance from correspondent banks and access to interesting new markets, products and clients.

This move also bodes well for increased profitability, among others as a result of substantially lower funding costs, and enhanced returns for all shareholders. Access to more funding will also support further the implementation of the successful business model we have been implementing. As a matter of fact, the ongoing integration with the Group's new reference shareholders in the latter part of the year has already facilitated access to more favourable conditions on the funding side of the balance sheet. It has also enhanced intra-group technology transfers, while starting to leverage Group synergy to drive value and generate bottom line results.

More specifically, the strong presence in the MENA (Middle East - North Africa) region of KIPCO's banking flagship, Burgan Bank, brings unique capabilities and advantages, as well as undoubted financial strength to FIMBank, while Burgan's operations in this region present several cross-selling opportunities among its various entities. That between Burgan Bank and FIMBank will be a two-way partnership, however,

The President of Malta H.E. Dr. George Abela during his visit to FIMBank particularly in view of our management and staff's specific skill set in Trade Finance, Factoring and Forfaiting instruments, which are unique. We are certain that this will add value to all of KIPCO's operating subsidiaries. FIMBank also complements Burgan's footprint through its presence in London, India, Egypt, Dubai and Malta, amongst others.

factoring spearheads global growth

During the period in review, Factoring remained the fastest growing Trade Finance instrument. This was in part due to an enhanced perception of risk globally, but also stemmed from the shift from overdraft and unsecured credit facilities to receivables and invoice-discounting portfolios. Although this development was influenced by the introduction of Basel II/III rules impacting capital requirements, it also reflects the understanding that Factoring is simply a more prudent form of funding. Growth in cross-border Factoring has been driven by the continued growth in open account trade, especially used by suppliers in the developing world, and prompted by major retailers and importers in the developed world, as Factoring has also become an acceptable alternative to traditional Letters of Credit. Central bankers and regulators have come to appreciate the product as a safe and secure way to finance trade, while governments and policy makers acknowledge the invaluable role factoring plays in financing SMEs.

Over the past four years, the setting up of international factoring joint ventures has been spearheading the rapid expansion of FIMBank's global footprint, namely through the establishment of operations with prominent institutions in selected emerging markets, including India, Russia and Brazil, in addition to those already established in Dubai, Egypt, and Lebanon. Our strategy has been to team up with a strong domestic partner who has quick access and reach, who can boast local market expertise, and who can facilitate access to the regulator. We, on the other hand, come in with our product expertise and an established 'FIMBank best practice' model in this sector. The investment of a supranational institution standing is also sought for these projects, not least to provide the joint venture with an objectively even better standing. FIMBank is determined to continue pursuing the expansion of its network and we have targeted Slovenia, Kenya, Switzerland and Chile as potential markets for our further growth.

a vibrant culture of quality service and professionalism

Ever since the Bank's inception in 1995, one of the mainstays of its corporate culture has been a customer-driven and accessible approach. The partnerships and long-term relationships we continue to build with shareholders, clients, correspondent banks and associates, constitute the foundation of our success. And if the extent and quality of these relationships is any indicator of success in this business, we owe it all to our people. We are well aware of the fact that the key to optimal performance across the Group is having engaged, committed people. We have always laid extraordinary emphasis on

Mercury Tower in St. Julian's, Malta

the value of our human resources, and we regularly make it a point to acknowledge the decisive contribution of our people to the Group's reputation.

Our client-focused way of working, our openness and clarity in communicating and constructing our products is recognised by the industry, our customers and the specialist media. Such a vibrant culture cannot foster without the active and consistent drive of all our employees who ensure that our core values are reflected in everything we do. Over the years, we have managed to forge a team of exceptionally capable multi-lingual professionals, each of whom has brought a wealth of experience, technical skills and specialist knowledge to the provision of services delivered with competence, courtesy, efficiency and overall proficiency.

We benefit from an ideal mix in terms of staff complement. Generally speaking, our team is fairly young and we realise that young people are our future. However, a core of seasoned and experienced bankers are there to guide and channel the energies and dynamism of the younger executives. And we make sure we provide all of them with the right environment to develop and prosper.

In March, we held our traditional annual Senior Management Meeting in Malta, during which executives from our offices in New York, São Paulo, London, Moscow, Istanbul, Dubai, Cairo, Mumbai, Singapore and the Malta head office met to review FIMBank's performance, as well as recent developments affecting the Group. The programme for the meeting included a creative workshop session with the theme 'The Quality of your Thinking will determine the Quality of your Future' led by Donna Pace, a Master Trainer of the de Bono Thinking Systems Tool which is concerned with process improvement, organisational innovation, strategic leadership and personal creativity. Apart from allowing participants the opportunity to network, the meeting also had its fun side, with a team building exercise held at the Limestone Heritage in Siggiewi, where participants learnt how to sculpt and develop their creativity. The teams managed to create beautiful works of art some of which are now embellishing the Bank's head office.

market recognition of the FIMBank brand

During 2013, our reputation as a reliable global partner in the dynamic and specialist world of Trade Finance was further enhanced by the industry's recognition of our commitment to offer the best service possible to our clients.

In July, we received a double accolade, as the services provided by both FIMBank plc and London Forfaiting Company Ltd, two companies which form part of the FIMBank Group, were acclaimed as the best in their respective categories by the readers of prestigious international publication Trade & Forfaiting Review (TFR). The TFR awards, which are determined on the basis of polls conducted among the magazine's readers, saw FIMBank plc recognised as 'Best Factoring Institution', while London Forfaiting Company Ltd was awarded the title of 'Best Forfaiting Institution'.

Meanwhile, towards the end of the year, FIMBank plc was declared 'Best Factoring House' by international Trade Finance magazine Global Trade Review (GTR). The award was the result of GTR's readers' poll for the 'Leaders in Trade 2013'. FIMBank won the award for the fifth consecutive year. Earlier in the year our Dubai-based Menafactors had also been awarded the title 'Best Factoring House' for the Middle East – North Africa Region (MENA) by GTR.

The Prime Minister of Malta Hon. Joseph Muscat during the official inauguration of FIMBank's new head office

An aerial view of FIMBank's Mercury Tower

Mercury Tower Main Lobby

a new home for FIMBank in Malta

September saw the inauguration of the FIMBank Group's new global head office in Malta. This state-of-the-art building, called Mercury Tower located in the heart of St. Julian's.

Mercury Tower, the building which hosts the new Malta head office of global trade finance specialist FIMBank plc, was inaugurated today by Prime Minister Joseph Muscat during a ceremony held to mark the occasion. This state-of-the-art and environmentally-friendly building forms part of The Exchange, the financial and business centre in the heart of St. Julian's.

Addressing the guests attending the inauguration ceremony, the Prime Minister of Malta Hon. Joseph Muscat stated "It is with great pleasure that today I inaugurate FIMBank's head office in Malta. With its strong international banking network, the bank is today a global player on the world stage, thus I am delighted that such an institution chose our country to service its large network of international offices across the globe." comparing the Malta government's vision to that of FIMBank "My government is committed to ensure the best setting for foreign investors who choose our country as we want Malta to be a key global player in areas such as the financial services sector. The time is right to expand beyond European shores thus FIMBank's Group strategy falls within my government's vision for this country".
Four key factors underlined this landmark project a central location, functionality, flexibility and sustainability. The building is not solely aesthetically pleasing but is also environmentally friendly. We were very proactive in implementing measures to minimise our impact on the environment and we will continue reviewing our performance in this regard, implementing recycling practices as well as pursuing efforts to reduce our carbon footprint.

We have invested in superior external thermal insulation, high performance glazing, building management, intelligent lighting, reverse osmosis and heat recovery units, built-in to our air-conditioning system in order to optimize energy efficiency to the highest standards. Appreciating the fact that water is a precious commodity on the Island, we constructed a reservoir for the harvesting of half a million litres of rain water. It is also worth mentioning that the new data centre installed in the building, which provides the platform on which we run all our global operations, was the subject of a case study commissioned by Hewlett Packard. This case study highlighted the innovative and effective approach undertaken by FIMBank in deploying this infrastructure.

We are proud of this accomplishment in building our global head office in Malta because it is really a testament to the roots we have established on the island, itself a forward looking and reputable financial centre, offering a strategic location at the centre of the Mediterranean, a stable environment, and home to a pool of highly educated and language-skilled bankers and Trade Finance specialists. With this move, we are clearly defining our intention for a long-term presence here.

Public Broadcasting Services CEO with FIMBank President

FIMBank sponsored art exhibition

COFIT students during their second visit to Malta

a commitment to corporate social responsibility

At FIMBank we understand that Corporate Social Responsibility (CSR) should reflect the commitments we make to our clients, shareholders, employees and the Maltese community, within the ambit of our core values. We are a Malta-based bank with a global mission, and as such we recognise the fact that our conduct - whether social, environmental or ethical - has an impact on the Bank's reputation and on the community within which we operate. Consequently, we take our corporate social responsibilities seriously.

We consider ourselves fortunate to have Malta as our home, and we always make it a point to emphasise how much we have benefited from basing our operations on these islands. Our CSR projects are therefore primarily aimed at giving something back to the Maltese people. Throughout the year under review we supported a number of initiatives that benefit the local community, primarily by helping raise awareness of the Maltese Islands' rich historic, artistic and cultural heritage. To this end, amongst others we have partnered with Malta's Public Broadcasting Services Ltd (PBS) in an initiative which will see the broadcasting of a series of daily features focusing on Malta's cultural heritage, between 2013 and 2015. The series of 48 video productions focuses on little-known facts about specific artefacts, buildings and other unique elements of the islands' history, art and culture, and is being transmitted on national TV stations TVM and TVM2.

Meanwhile, midway through the year, we announced a joint project between FIMBank, International Factors Group and the University of Malta for the launch of a Certificate of Finance in International Trade. The principal objective of the course is to deliver a competitive, industry-focused educational programme that provides the tools needed to achieve professional development goals in international Trade Finance. The emphasis throughout is on the practical aspect of real life international trade scenarios. The programme also incorporates the IFG Academy Week, which is the only truly international comprehensive and integrated course on the theory and practice of Factoring and commercial finance. The six-week Malta-based curriculum is designed to provide participants with a wide range of competencies that will enable them to further their career in the corporate world. This is the first step in a long-term process, since our ambition is to see this certificate developing into a diploma, subsequently a degree and eventually into a fully-fledged MBA, which would be a first.

looking to the future with confidence

Going forward, our immediate objective will be to continue helping our customers respond to the challenges of market conditions. One of the mainstays of our corporate culture has persistently been a customer driven and accessible approach. I am confident that the partnerships and long-

FIMBank employees during the President of Malta's visit

term relationships that will continue to build with customers, shareholders, correspondent banks and associates, constitute the foundation of our success and will further support our achievement of good results and continued growth.

Meanwhile, as a result of the ongoing integration with the Group's new reference shareholders, the KIPCO Group, and a consequently stronger capital base, we have started enjoying improved access to more favourable conditions on the funding side of the balance sheet. FIMBank has also started benefitting from intra-group technology transfers, while the leveraging of synergy within the Group will continue to drive value and generate bottom line results.

FIMBank will also be more competitive on the banking circuit: we can now handle better volumes and improve the risk profile, and we can boost our involvement in more syndicated loans and have more lines. Overall, we will be a stronger, more solid player. Many of the larger corporates will become accessible customers, but we also hope to be able to grow the small customers with us. We will also be in a position to be involved in larger deals with our present customers. I am confident that the acquisition by KIPCO will accelerate FIMBank's growth trajectory and lend added impetus to management's focus and commitment to continuously improve performance and achieve set strategic objectives.

Our operations will remain underpinned by strong and effective risk management. Our robust risk culture means that structures are in place to ensure that we are consistently reviewing our risks, trying to take those we feel we understand, and managing them effectively. We will also continue to focus on the bottom line, aiming for a reduction in our cost-income ratio, making the best use of available liquidity.

We will continue to invest in our highly-skilled and talented people, the Group's most formidable asset, through measures aimed at enhancing employee empowerment and job satisfaction. Overall, we will be pursuing our disciplined approach to drive performance management. Current world conditions require alertness and quick response time – two elements that we constantly seek to excel in. We will also continue working to turn FIMBank's size and global network to our best advantage in order to generate more business, while at the same time striving to increase FIMBank's footprint, primarily through the pursuit of growth in our international factoring operations.

directors' report

For the year ended 31 December 2013

The Directors are pleased to present their report together with the audited financial statements of the Bank and the Group for the year ended 31 December 2013. This report is prepared in terms of the Companies Act, 1995 (Chapter 386, Laws of Malta, "The Companies Act") and complies with the disclosure requirements of the Sixth Schedule to the same Act.

results for the year

The Bank and the Group reported a loss after tax of USD2,830,769 and USD4,215,409 respectively for the year under review.

Further information about the results is provided in the "Income Statements" and the "Statements of Comprehensive Income" on pages 40 to 41 and in the "Review of Performance" below.

principal activities

The FIMBank Group of Companies (the "Group") comprises FIMBank p.l.c. (the "Bank"), and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI"), and FIMFactors B.V. ("FIMFactors"). LFC is itself a parent of a number of subsidiaries as set out in note 27 to the financial statements whilst FIMFactors is the parent of a wholly owned subsidiary Menafactors Limited ("Menafactors"). The Group is supervised on a consolidated basis by the Malta Financial Services Authority, whilst Menafactors and the Bank's Branch in the United Arab Emirates are licensed and regulated by the Dubai Financial Services Authority.

A brief description of the activities in the Group follows (% shareholding follows after the name):

a. The Bank is a public limited company registered under the laws of Malta, and listed on the Malta Stock Exchange. It is licensed as a credit institution under the Banking Act, 1994. The Bank is principally active in providing international trade finance and to act as an intermediary to other financial institutions for international settlements, forfaiting, factoring and loan syndications.

b. LFC (100%) is registered in the United Kingdom as a private limited liability company. It was founded in 1984 and provides international trade finance services (with particular focus on forfaiting business) through an international network of offices. Some of these offices have distinct corporate status in the various jurisdictions where they are providing the service. LFC's activities include the trading of bills of exchange, promissory notes, loans, deferred payment letters of credit and the provision of other financial facilities to companies and banks.

c. Menafactors (100%) is incorporated in the United Arab Emirates and is licensed and regulated by the Dubai Financial Services Authority to provide international factoring and forfaiting services in the Gulf and MENA region. The Bank's holding in Menafactors is through FIMFactors. Menafactors, in turn, holds 50% in Levant Factors S.A.L., a company registered in Lebanon.

d. FIMFactors B.V. (100%), registered in the Netherlands, is the corporate vehicle for FIMBank's holdings in factoring joint ventures and associated companies.

e. FBS (100%), registered in Malta, has as its primary purpose the provision of information technology and support services to the Group and its associated companies, to correspondent banks as well as to third party factoring services providers.

f. FPI (100%), registered in Malta, owns and manages the FIMBank's head office in Malta. FIM Property Investment Limited is responsible for the day-to-day management of the building and leasing, if any, of space for commercial purposes.

The Bank also holds the following equity investments:

a. The Egyptian Company for Factoring S.A.E. ("Egypt Factors" - 40%), a company incorporated in Egypt, where the other shareholders are Commercial International Bank (Egypt) holding 40% and International Finance Corporation ("IFC") holding 20% of the shares. Egypt Factors is active in providing factoring and forfaiting services to Egyptian companies.

b. Through its wholly owned subsidiary FIMFactors in:

i. CIS Factors Holdings B.V. ("CIS Factors" - 40%), a company set-up under the laws of the Netherlands which serve as an investment vehicle for a factoring company incorporated under the laws of the Russian Federation and which provides factoring services in Russia. As further disclosed in the note 48 to the Audited Financial Statements, with effect from 18 February 2014 the Group acquired the shareholding held by Transcapitalbank and at the date of this report the Group owns 80% of the company. The remaining 20% shareholding is held by the International Finance Corporation ("IFC").

ii. India Factoring and Finance Solutions Private Limited ("India Factoring" – 49%), a company incorporated under Indian law which provides factoring, forfaiting and trade finance related activities in India. The other shareholders are Punjab National Bank (30%), Banca IFIS (10%), Blend Financial Services Limited (1%) and India Factoring Employee Welfare Trust (10%). India Factoring is regulated by the Reserve Bank of India.

iii. BRASILFACTORS (40%), a joint venture with headquarters in the São Paulo, Brasil, with its core business focused on factoring services and forfaiting targeting small and medium-sized companies. The other shareholders are Banco Industrial e Comercial S.A. ("BICBANCO") with 40% and the IFC with 20%.

changes to controlling shareholding

During 2013, the Group saw a gradual change in controlling shareholding which was initiated by an extraordinary general meeting on 31 January 2013 during which the shareholders approved a joint offer made by Burgan Bank S.A.K ("Burgan Bank") of Kuwait, and United Gulf Bank B.S.C. ("UGB") of Bahrain, providing for a multi-step approach to acquire the control of the Group. Further information is disclosed in note 47 to the Audited Financial Statements.

review of performance

Although the markets where the Group is active remained affected by generally challenging conditions for business, the year under review continued to present encouraging opportunities in international trade finance both with existing clients as well as with new products and markets. 2013 also started with considerable anticipation following from the announcement, late in 2012, of the proposed joint offer by Burgan Bank and United Gulf Bank to acquire and increase a controlling interest in the Group. However this project only started to gather serious traction in the second half of the year with the injection of new capital and extension of funding support later in the year. In these circumstances, both FIMBank and LFC registered improved and commendable operating performances which were marked by a few but fairly significant impairment events. Menafactors also returned a positive year as the outlook for business in the MENA region continued to strengthen. Results from the main associated companies in Egypt, Russia and India were mixed while Brasilfactors continued to face start-up challenges in line with the build-up of its portfolio. Impairments also impacted the performance of Levant Factors in Lebanon.

income statement

For the year ended 31 December 2013, the Group registered a loss of USD4.22 million compared to a profit of USD8.80 million in 2012. Group losses per share stood at US cents 2.66 (2012: earnings per share of US cents 6.17). The results for the period under review are summarised in the table below which should be read in conjunction with the explanatory commentary that follows:

	2013	2012	Movement
	USD	USD	USD
Net interest income	15,941,655	12,975,759	2,965,896
Net fee and commission income	22,893,042	20,698,212	2,194,830
Net results from foreign currency operations	2,750,739	2,993,905	(243,166)
Other operating income	19,273	16,494	2,779
Net operating results	41,604,709	36,684,370	4,920,339
Net impairment losses	(6,546,151)	(1,323,275)	(5,222,876)
Net losses from trading assets and other financial instruments	(8,133,627)	3,356,462	(11,490,089)
Share of loss of equity accounted investees	(2,977,398)	(1,390,319)	(1,587,079)
Net income	23,947,533	37,327,238	(13,379,705)
Operating expenses	(30,347,929)	(28,485,074)	(1,862,855)
(Loss)/profit before income tax	(6,400,396)	8,842,164	(15,242,560)
Taxation	2,184,987	(43,631)	2,228,618
(Loss)/profit for the year	(4,215,409)	8,798,533	(13,013,942)

Prior to impairment losses, marked-to-market adjustments and share of equity results, the Group improved its operating performance by 13%, from USD36.68 million to USD41.60 million. Net Interest Income increased by 23% to USD15.94 million mainly as a result of higher volumes and improved margins, leading Net Interest Margin to strengthen from 43% to 45%. In a similar trend, Net Fee and Commission Income increased by 11% to USD22.89 million, aided by improved business volumes across all Group companies. Net income from foreign currency operations - mainly sourced from client-driven foreign exchange business and the valuation of currency forward and swap contracts held by the Group to manage its currency exposures - deteriorated by 8% to USD2.75 million.

Net impairment losses increased from USD1.32 million to USD6.55 million. This result is attributed to: a) an increase in specific impairment charges taken on Bank Solo assets which either show traits of possible non-recoverability or keep non performing in 2013; and b) an increase in collective impairment charges as a result of a growth in the banking book coupled with longer tenors. The Bank is continuously pursuing efforts especially in relation to the most recently impaired assets with a view to recover part or all of the overdue balances.

Net losses from trading assets and other financial instruments resulted in a loss of USD8.13 million, compared to a profit of USD3.36 million in 2012. This negative performance is attributed to two factors namely a) a net loss of USD7.52 million on the Group's forfaiting book, which loss mainly represents unrealised marked-to-market adjustments on specific distressed assets of USD8.03 million compensated by realised trading profits of USD0.50 million. The Group's forfaiting subsidiary is continuously monitoring such distressed assets and is taking a proactive approach to ensure all required actions are taken to recover the exposure; and b) a net loss of USD0.61 million on the Group's credit linked notes, which loss is fully attributable to marked-to-market adjustments on the remaining notes held in the book. The Group is actively pursuing a strategy to dispose of such notes which are not directly related to the Group's core operations and subject the Group's bottom line to significant volatility.

The Group's factoring entities accounted through the equity method yielded a net share of loss of USD2.98 million compared to a net loss of USD1.40 million in 2012. This worsening performance is attributed to specific impairment losses taken in the Russia and Lebanon entities which reflect particular recoverability difficulties in both markets. In contrast the India and Egypt entities returned a positive result to the Group which were compensated by operational losses of the yet starting up Brazil entity.

Operating expenses for the six months under review increased by 7% from USD28.49 million in 2012 to USD30.35 million, largely reflecting the depreciation on the Group's Head Office building which became operational as from 1 July 2012.

financial position

At 31 December 2013, total Consolidated Assets stood at USD1.24 billion, an increase of 9% over the USD1.13 billion reported at end 2012. The Group's exposure to Malta Government Treasury Bills increased to USD62 million from USD13 million in December 2012. This reflects the Group's strategy to optimise its liquidity management and short term yields. As a result, Loans and Advances to Banks decreased by 15% to mirror the shift from bank deposits to treasury bills while Loans and Advances to Customers increased by 27% when compared to the levels at 31 December 2012 as a result of improved volumes. The Group's Trading Assets, made up of LFC's forfaiting portfolio, increased by 11% over 2012 to USD273 million. The value of Investments in equity accounted investees decreased by 20% reflecting the share of losses sourced from such entities as well as negative currency translation mainly from Indian Rupees and Brazilian Real to US Dollars.

Total Consolidated Liabilities as at 31 December 2013 stood at USD1.09 billion, an increase of 9% over end-2012. During the year under review, the Bank settled USD81 million worth of debt securities, through the early-redemption of its 7% 2012-2019 Subordinated Bonds as well as the maturity of the 4.25% Bonds issued in 2010. This funding was compensated by an increase of 40% in Amounts Owed to Banks, from USD432 million to USD603 million, largely reflecting the USD150 million facility from Burgan Bank S.A.K. Amounts Owed to Customers decreased by 5% to USD432 million, as a result of lower callable cash and collateral deposits held by business clients.

Group Equity as at Financial Reporting date stood at USD149 million, up by USD18 million from the equity level of 31 December 2012, reflecting in large the USD30 million new equity invested by UGB during the second half of 2013 compensated by the negative performance for the year as well as the cash dividend paid in May 2013 and currency translation losses on equity accounted entities.

Group Commitments, consisting mainly of confirmed letters of credit, documentary credits, commitments to purchase forfaiting assets and factoring commitments marginally increased by 31% to USD269 million, reflecting increased documentary credit volumes and undrawn credit facilities. Contingent Liabilities decreased by 65% from USD73 million to USD26 million as a result of decreased balances in outstanding Guarantees.

outlook for 2014

2014 has started with the joint offer by Burgan Bank and UGB resulting in these two institutional shareholders increasing their stake in FIMBank to 80%. With this comes the anticipation of significantly improved prospects to take on new and bigger business, to benefit from better funding opportunities and to overall strengthen the Group's operating performance even further. Critical to the development of the FIMBank Group will be its ability to maintain strong capital ratios and enhance its credit rating. FIMBank should continue to focus on its core expertise and track record in trade finance, taking on business selectively and addressing the ever-increasing demands of regulation, including the first implementations of Basle 3/CRD IV. LFC should also continue to further improve its operating performance through a larger portfolio and diversification of funding lines which should also lead to improved margins. Menafactors is expected to maintain its strong operating fundamentals and benefit from the overall improvement in the region. The Group will step up recovery actions on all impairments while monitoring of joint venture activities is being strengthened by enhancing oversight structures at Bank level as well as through obtaining shareholder control in key ventures.

dividends and reserves

The Directors will not be recommending the payment of a dividend to the Annual General Meeting of shareholders (2012: USD5,279,120, representing a net dividend per ordinary share of US cents 3.693149). A resolution proposing a 1 for 10 Bonus Issue of Ordinary Shares by way of capitalisation of the Share Premium Account will be presented to the Annual General Meeting of shareholders.

standard licence conditions and regulatory sanctions

During the year under review, no breaches of licence requirements occurred. Also, no regulatory sanctions were taken against the Bank.

approvals at the annual general meeting of shareholders

The Bank convened its Annual General Meeting on 2 May 2013. Along with the statutory Ordinary Resolutions, the Meeting approved a Resolution presented as special business to the shareholders, namely the disclosure of unpublished price-sensitive information under certain circumstances, and two Extraordinary Resolutions namely (a) authority to the Bank to acquire its own shares and (b) amendments to the Memorandum of Association of the Bank.

In addition to the Annual General Meeting, the Bank also held an extraordinary general meeting of shareholders on 31 January 2013 which approved a joint offer made by Burgan Bank and UGB providing for a multi-step transaction to acquire control of the Group. Further information is provided in note 47 to the Audited Financial Statements.

disclosure in terms of the sixth schedule to the Companies Act, 1995

Save as otherwise mentioned in this Report and in the Financial Statements, there is no further information that requires disclosure pursuant to the Sixth Schedule of the Companies Act.

shareholder register information pursuant to Listing Rule 5.64

The Directors refer to the following disclosures in terms of Listing Rule 5.64:

a. Details of the structure of the Capital, the class of shares and, the rights and obligations attaching to it and the percentage of total share capital that it represents are, unless otherwise stated in this Report, disclosed in the Notes to the Financial Statements.

b. Except as provided for by Clause 6A of the Memorandum of Association and Article 41 of the Articles of As sociation of the Bank, or where the consents of the supervisory authorities may be required, there are no restrictions on the transfer of securities, or limitations on the holding of securities, or the need to obtain the approval of the Bank or other holders of securities of the Bank for any such transfer or holding.

c. Shareholders holding 5% or more of the Share Capital as at 31 December 2013 are as follows:

	Number of Shares	Percentage Holding
United Gulf Bank B.S.C	54,203,434	30.25%
Burgan Bank S.A.K	35,000,000	19.53%

As a result of the Joint Voluntary Bid launched on 9 December 2013 and which closed on 28 January 2014 (see notes 47 and 48 to the Audited Financial Statements), UGB increased its shareholding to 60.61% and Burgan Bank remained at 19.53%.

d. In accordance with Clause 6A of the Memorandum of Association of the Bank, for a number of reserved matters, the Bank needs to obtain the prior written consent of the International Finance Corporation. The reserved matters are the following:

- Reduction in the capital of the Bank;
- Change in the nominal value of, or the rights attached to, any shares of any class of the Bank, unless this is specifically required by Maltese law;
- Merger or consolidation of the Bank;
- Material reorganization of the Bank;
- Sale of all or substantially all of the Bank's assets;
- Change in the Bank's capital structure, except for the issuance of any new shares or securities convertible into shares. In case of issue of new shares or securities convertible into shares, the Bank needs to inform the IFC 90 days prior to the issuance of such shares; and
- Alteration or amendment to the Memorandum or Articles of Association.

During the forthcoming Annual General Meeting, scheduled for 8 May 2014, shareholders will be asked to approve amendments to the Memorandum of Association of the Bank to repeal the reserved matters noted above.

e. There is no share scheme in place which gives employees rights to any form of control.

f. The Bank's Articles of Association do not contain more stringent provisions than the ones contained in the Companies Act governing the changes or variations in the rights attached to shares.

In terms of Article 12 of the Bank's Articles of Association the rights attached to any class of shares may be varied either with the consent in writing of the holders of not less than 80% of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of that class. However in terms of Article 6A of the Memorandum of Association of the Bank, the IFC's prior consent is to be obtained to change the rights attaching to any class of shares. The Banking Act obliges the Bank to obtain the consent of the supervisory authority (MFSA) to effect any material change in voting rights.

g. The rules and procedures governing the appointment and replacement of Board members are provided by the Articles of Association and are referred to in the "Statement of Compliance with the Principles of Good Corporate Governance". Any amendments to the Articles shall be by means of an Extraordinary Resolution in accordance with the provisions of Articles 90 and 91.

h. Articles 115 to 122 of the Articles of Association indicate the powers and duties of Directors. More specifically, at the 2013 Annual General Meeting the Bank requested and obtained a renewal authorisation from the shareholders to buy back its own shares, as indeed empowered to do so by Article 23 of the Articles of Association. Such authorisation is required in terms of the Companies Act and is valid until the Annual General Meeting in 2014. The number of shares which the Company is authorised to buy back may not exceed the maximum permissible at law, i.e. up to 10% of the issued share capital. Any prospective acquisition will be financed from profits available for distribution in terms of law. The Bank has declared that it would be its intention to acquire such shares with a view to dispose of them in an orderly manner and within a reasonable time-frame; they will neither be retained as own shares for a considerable period of time nor cancelled as part of a capital reduction exercise. The price range was established to be between USD 0.500 and USD 1.500, per ordinary share.

i. Unless otherwise disclosed in this Annual Report, there are no significant agreements to which the Bank is a party and which take effect, alter or terminate upon a change of control of the Bank following a takeover bid and the effects thereof.

j. There are no agreements between the Bank and its Board Members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

events after the financial reporting date

On 28 January 2014, the Bank announced that as a result of a joint voluntary bid launched on 9 December 2013, UGB, and Burgan Bank increased their aggregate shareholding in FIMBank to 80.14%, with UGB increasing its shareholding to 60.61% and Burgan Bank remaining at 19.53%. Both entities are ultimately controlled by Kuwait Investments Projects (Holding) ("KIPCO"). As further announced on 30 January 2014, the Bank has requested the Listing Authority's approval to remain listed on the Malta Stock Exchange ("MSE") notwithstanding that the proportion of the class of ordinary shares admitted to listing on the MSE in the hands of the public has fallen below the required minimum of 25% of the total issued share capital. Further information is provided in note 47 to the Audited Financial Statements.

On 20 February 2014, the Bank also announced that with effect from 18 February 2014, the Group acquired the 40% shareholding held by Joint Stock Bank Transcapitalbank in CIS Factors Holding B.V. At the date of this report the Group holds 80% of the company's shares and as a result of this transaction the Group now has control over the company and will change the measurement of this investment from the "equity" method to a "line-by-line" consolidation.

On 2 January 2014, the Bank also announced that it has entered into an agreement with the current shareholders of PRVI Faktor, a Slovenia factoring services and finance company with operations in Central Eastern Europe and South East Europe, for an acquisition of 40% of the participating interests of the Company. At the date of this report, completion of the agreement is still subject to competition clearance, regulatory consents and the satisfaction of certain conditions precedent.

going concern

As required by Listing Rule 5.62, upon due consideration of the Bank's profitability and statement of financial position, capital adequacy and solvency, the Directors confirm that, at the time of approving these financial statements, the Bank is capable of continuing to operate as a going concern for the foreseeable future.

directors

The Directors who served during the financial year (inclusive of any changes to the date of this report) were:

John C. Grech	(Chairman)
Masaud M. J. Hayat	(Vice Chairman, appointed on 2 May 2013)
Hamad Musaed Bader M. Al-Sayer	
Majed Essa Al-Ajeel	(Appointed on 2 May 2013)
Eduardo Eguren Linsen	(Appointed on 2 May 2013)
Adrian Alejandro Gostuski	(Appointed on 2 May 2013)
Rogers David LeBaron	
Fakih Ahmed Mohamed	(Appointed on 2 May 2013)
Rabih Soukarieh	(Appointed on 2 May 2013)
Faisal Y. Al-Awadi	(Retired on 2 May 2013)
John D. Freeman	(Retired on 2 May 2013)
Tarik Kaoukji	(Retired on 2 May 2013)
John W. Kiefer	(Retired on 2 May 2013)
Margrith Lütschg-Emmenegger	(Retired on 2 May 2013)
Mehdi R. Malaki	(Retired on 2 May 2013)
Islam Zughayer	(Retired on 2 May 2013)
Mohammed Ibrahim Husain Marafie	(Resigned on 11 February 2014)
Fouad M. T. Alghanim	(Resigned on 3 March 2014)

independent auditors

KPMG have expressed their willingness to continue in office as auditors of the Bank. A resolution proposing their re-appointment will be submitted at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 11 March 2014 and signed on its behalf by:

John C. Grech
Chairman

Masaud M. J. Hayat
Vice Chairman

Registered Address
Mercury Tower
The Exchange Financial and Business Centre
Elia Zammit Street
St. Julian's STJ 3155
Malta

statement of compliance with the principles of good corporate governance

introduction

Pursuant to the requirements of Listing Rules 5.94 et seq of the Malta Financial Services Authority (the "MFSA"), the Board of Directors (the "Board" or "Directors") of FIMBank p.l.c. (the "Bank") hereby details the extent to which the Code of Principles of Good Corporate Governance ("the Principles"), published as Appendix 5.1 to Chapter 5 of the Listing Rules, have been adopted together with the effective measures taken to ensure compliance with such Principles.

part 1: compliance with the principles

The Board firmly believes that strong corporate governance permits the Bank and the Group to benefit from greater transparency in its activities as well as in its relations with the market, thereby enhancing integrity and confidence. Although the Principles are not mandatory, the MFSA has recommended that Listed Companies endeavour to adopt such Principles. The Board has considered this to be in the best interests of the shareholders because they commit the Directors, Management and employees of the Bank to internationally recognised standards of corporate governance.

Ultimate responsibility for good corporate governance remains with the Directors who have therefore resolved to adopt the Principles and endorse them accordingly, except for those instances where particular circumstances exist that warrant non-adherence thereto, or at least postponement for the time being.

The Board is committed to improve further its corporate governance standards which are an ongoing process.

principle 1: roles and responsibilities of the board

The Board of Directors' terms of reference are included in relevant Charter and can be summarized as follows.

The Board is responsible for the overall long-term direction of the Group, for setting its strategy and policies and ensuring that they are pursued through good management practices. The Board discharges its responsibilities by:

a. exercising prudent and effective controls and ensuring that such controls are appropriately reviewed for effectiveness and monitored for compliance on a regular basis;
b. determining the strategic aims and the organizational structure;
c. regularly reviewing management performance and ensuring that the Bank/Group has the appropriate mix of financial and human resources to run its business;
d. being conversant with relevant statutory and regulatory requirements;
e. ensuring that all Directors regularly attend meetings of the Board, agree business objectives, financial plans and general parameters within which the Board, the Board Committees and Management are to function;
f. ensuring that systems and controls are in place to mitigate significant business risks and that exposures are identified and properly managed;
g. setting appropriate business standards, codes of corporate governance and ethical behaviour for all Directors and employees, as well as monitoring their performance;
h. appointing the President who is entrusted with day-to-day management of the Group and its operations, together with members of Management.

Over the years, the Board has created a framework through which it effectively performs its functions and discharges its liabilities. The Board has also established terms of reference and charters for the various Board Committees and the conduct of their meetings.

The Members of the Board of Directors of the Bank bring to their office a mix of backgrounds and capabilities, ranging from business to financial services. This ensures a good blend of expertise and experience. Moreover, the suitability of any individual to become a Director of the Bank is, in the first place, considered by the Chairman and incumbent Board members in the context of the Board's succession planning. Subsequently, the proposal for an individual to become a Director is assessed by the MFSA, which reviews, inter alia, the individual's competence to serve as Director against established 'fit and proper' criteria. In this connection, the individual is required to provide all information, including detailed personal and career information, as the competent authorities may deem necessary. Upon appointment, new Directors receive general information about the Bank, its business and affairs, and queries in this regard are in the first instance handled by the Company Secretary and/or the President.

principle 2: roles and responsibilities of the chairman and of the president

The roles of the Chairman and of the President are completely separate from one another to ensure clear division of responsibilities at the head of the Bank.

The Chairman is a non-executive officer who is selected from amongst the Directors. The Chairman is responsible for leading the Board and setting its agenda, ensuring that the Directors receive precise, timely and objective information so that they can properly execute their duties, encouraging their active engagement in meetings and issues and ensuring effective communication with shareholders.

The President is the most senior executive of the Group. She is responsible for leading the Management in the execution of the strategy and to run the day-to-day activities of the Group.

principle 3: board composition and appointment of directors

The Bank's Articles of Association (the "Articles") contain detailed provisions (in Clauses 93 to 114) as to the manner of appointment and retirement of Directors. Directors hold office from the close of the Annual General Meeting at which they are appointed until the day of the consecutive General Meeting, at which they become eligible for re-election. The Articles also provide that the Chairman and Vice-Chairman are to be appointed by the Directors from amongst their number and shall hold office for a period of one year, unless otherwise decided by a simple majority of the Board. Any member may nominate an individual in the manner prescribed by the Articles, provided that such nomination is seconded by a member or members who in the aggregate hold at least twenty thousand (20,000) shares.

As at the date of this Statement, the Directors and their respective first date of appointment to the Board are as follows:

	Year when first appointed
John C. Grech (Chairman)	2004
Hamad Musaed Bader M. Al-Sayer	2002
Fouad M. T. Alghanim	1997 (resigned on 3 March 2014)
Rogers David LeBaron	2006
Mohamed I.H. Marafie	1994 (resigned on 11 February 2014)
Masaud M. J. Hayat	2013
Fakih Ahmed Mohamed	2013
Adrian Alejandro Gostuski	2013
Eduardo Eguren Linsen	2013
Majed Essa Al-Ajeel	2013
Rabih Soukarieh	2013

Except for their involvement in Board Committees as described below, all Directors hold office in a non-executive capacity.
In March 2012 the Board, after noting the contents of an Internal Memorandum on the subject prepared by the Company Secretary, considered and resolved that all non-executive directors meet the requisites for them to be deemed independent. This decision was based on the representations given by the individual directors, including those with a shareholding in FIMBank or associated with entities having a shareholding in FIMBank. This notwithstanding, Mr Rogers LeBaron is as at 31 December 2013 the only independent director in terms of the Listing Rules.

A written declaration of independence was signed by the directors in March 2013 following the approval of the financial statements. Another written declaration of independence will be signed in March 2014 by the directors. Some of the directors have served on the board for more than 12 years. This notwithstanding, the board considers such directors to bring a sufficiently balanced character and frame of mind to their duties and judgment that they are consequently deemed to be independent.

principles 4 and 5: duties and proceedings of directors

The Board of FIMBank carries out its duties through a structure that starts with the strategy and policy formulated at meetings and subsequently delegated to Committees and Management for implementation and execution at various levels, both functional and operational.

In the first instance, the proceedings of Directors are regulated by the Bank's Articles of Association. Meetings of the Board for any calendar year are normally set at the last meeting of the preceding year, so that advance preparation and daily planning for the meetings can be made. Meetings are held at least quarterly and are formally notified by the Company Secretary at least seven days before the meeting with the issue of the agenda for the forthcoming meeting. Occasionally, meetings are also called at short notice or on an ad hoc basis, in which case the Directors may decide to waive the statutory period of notice. The agenda is accompanied by such papers and documents as are necessary to make Directors informed of issues relating to their roles and responsibilities, and in particular of the decisions they are expected to take. All Directors were duly notified of every meeting and given the statutory notice period, which, in the case of the meetings by conference facilities, was waived by approval of the Directors. With notices of meetings, the Directors are also served with Alternate Director Appointment Forms which, in case of non-attendance, are invited to complete and send to the Company Secretary prior to the meeting.

The Board held 8 meetings in 2013. Meetings include presentations by Management, whilst other information and documentation is made available for perusal by the Directors, at their request. Members of senior management attend Board meetings by invitation depending on the agenda content and relevance. The Board also might request that the meetings be attended by other employees or by professional advisors, as and when necessary. In all other circumstances, the Directors are expected to play a full and constructive role in the Group's affairs. As soon as possible after a meeting, draft minutes are circulated amongst the members for their information. Minutes are then read and approved at the following meeting. Since early 2011 an intranet facility has been introduced which allows Directors to access Board documents, including all past minutes of Board and committees meetings.

Board meetings also serve as an opportunity where the progress and decisions of the committees, covered under Principle 8, is reported. All Board committees are either a mix of Directors and Management (Executive Committee, Credit Committee, Governance Committee) or include the participation of Management (Audit Committee, Compensation Committee, Board Risk Committee). Committees report to the Board on their activities through their respective chairmen at each Board meeting. Management reporting is also done directly to the Board at each meeting, either by means of an update presentation from the President or usually through the Executive Committee. In any case, each Board meeting receives an update on the performance of the Bank and the Group, on known risk cases, litigation and potential problems, about key strategic developments, including the progress of investees such as subsidiaries and joint ventures and key financial indicators that enable performance to be measured against internal budgets and prior financial periods.

principle 6: information and professional development

Upon first appointment, all Directors are offered an introduction to the Bank and Group which includes tailored induction and familiarisation by the President and the Company Secretary. This usually covers legal and statutory responsibilities as well as a good overview of the Group's business and activities. Access to the services of the company secretary and resources of the Bank, including, where necessary, independent professional advice at the Bank's expense, are also available.

The intranet facility introduced in 2011 makes it easier for documents, materials and presentations, including professional resources and access to sources of online information, to be made easily accessible to Directors. Training sessions have been held in 2013 in order to procure Directors with necessary knowledge on their duties and responsibilities.

Moreover, the Board ensures that the President maintains systems and procedures for the development and training of the management and employees generally, in order to retain the best quality staff, optimise on management and staff morale and to continue developing the succession plan for senior management.

principle 7: evaluation of the board's performance

Members of the Board of Directors are subject to comprehensive fit and proper tests by the supervisory authorities before they are formally cleared for appointment to the Board. During 2012 a formal evaluation procedure of the Board members was introduced, based on a self-assessment exercise which is requested from each Director and submitted on an annual basis. The self-assessment forms are then evaluated by a committee, which function has been entrusted to the Governance Committee, which then reports directly to the Board Chairman who is required to act on the results of the performance evaluation process. The outcome would be to ascertain the strengths and to address the weaknesses of the Board and to report to the Board itself and, where appropriate, to the Annual General Meeting. This exercise has been repeated in 2013. The last self-assessment from Directors was requested in the last quarter of 2013, with the formal evaluation taking place, and expected to be concluded during the first quarter of 2014.

principle 8: board committees

The Bank's Articles of Association establish that the Directors may delegate certain powers, authorities and discretions to any person and/or Committee appointed by them. The composition of such Committees, as well as the participation of Directors on them, is decided upon by the Board.

Accordingly, the Board has established the following committees:

• Executive Committee
• Audit Committee
• Board Risk Committee
• Asset-Liability Committee
• Compensation Committee (refer to Remuneration Report on page 33)
• Credit Committee – set-up in 2013
• Governance Committee – set-up in 2013

The Bank has so far opted not to constitute a Nominations Committee. Further explanation is provided under the section entitled 'Non-Compliance with the Principles' of this Statement.

executive committee

The Executive Committee acts as the delegated authority by the Board in overseeing the activities and management of the Group and approving limits beyond the powers of the other Committees. The Executive Committee's terms of reference are included in the Executive Committee Charter.

The members of the Executive Committee are:

Margrith Lütschg-Emmenegger (Chairman)
John C. Grech
Rabih Soukarieh
Armin Eckermann
Marcel Cassar
Simon Lay
Ivan Fsadni
Michael Davis

The Executive Committee met on 5 occasions during 2013, however communication with and between Management and the Committee's members is regular and ongoing.

audit committee

The Audit Committee assists the Board in fulfilling its supervisory and monitoring responsibilities, according to detailed terms of reference included in the Audit Committee Charter and which reflect the recent requirements of the Listing Rules as well as current best practices and recommendations of good corporate governance. The terms of reference of the Audit Committee, as detailed in the Audit Committee Charter include:

a. the monitoring of the financial reporting process, including the audit of the annual and consolidated accounts;
b. the monitoring of the effectiveness of the Group's internal control, internal audit, compliance and risk management systems;
c. the maintenance of communication on such matters between the Board, Management, the External Auditors, the Internal Auditors and the Compliance function;
d. the monitoring and reviewing of the External Auditor's independence, and in particular, the provision of additional services to the Issuer;
e. the monitoring and reviewing of proposed transactions by the Group with related parties; and
f. the performance of the Group's Internal Audit and Compliance functions.

The Audit Committee also considers the arm's length nature of related party transactions, vets and approves them. Both the Audit Committee's and the Head of Internal Audit's terms of reference clearly stipulate their independence from other Board Committees and management, and such independence is also acknowledged by external regulatory verification. The Head of Internal Audit has direct access to the Audit Committee Chairman at all times, attends all meetings and acts as secretary to the Audit Committee. The Head of Compliance also has direct access to the Audit Committee Chairman and attends all meetings.

The members of the Audit Committee are:

Rogers David LeBaron (Chairman)
Eduardo Eguren Linsen (Vice Chairman)
Hamad M.B.M. Al-Sayer
Majed Essa Al-Ajeel

The member of the Audit Committee who, as required by the Listing Rules, is designated as independent and competent in auditing and/or accounting was for the period between 01 January 2013 and 01 May 2013, John D. Freeman. Mr. Freeman served for many years as President and Managing Director of Quabbin Capital, a private equity investment firm as well as a board member of a number of its portfolio companies. Mr Rogers LeBaron, was appointed as Audit Committee Chairman from 2 May 2013 and the designated independent and competent member in auditing as at to date. Mr Rogers LeBaron was a Director of Financial Institutions in the European Bank for Reconstruction and Development in London from 1996 until 2004 and subsequently held the position of Principal Financial Advisor, Global Financial Markets Department within the IFC.
The Audit Committee normally requests members of Management to attend its meetings.

The Audit Committee held 5 meetings during 2013. The External Auditors were invited to two of the Audit Committee meetings, which meetings considered the Bank's Separate and Consolidated Annual Financial Statements 2012, the Annual Report and the 2013 Separate and Consolidated Interim Financial Statements, respectively. In both meetings, the External Auditors were invited to participate, by conference call, in the discussions which took place under the Agenda Item which considered these financials, in both cases providing the Audit Committee with an update on the scope of their engagement and the work carried out.

board risk committee

The Board Risk Committee is responsible for overseeing the Group's risk management strategy, systems and policies, and for recommending country limits for approving by the Board of Directors. The Board Risk Committee is also responsible for the oversight of operational and legal risk matters.

The Board Risk Committee members are:

Adrian Alejandro Gostuski (Chairman)
Rabih Soukarieh (Vice Chairman)
Fakih Ahmed Mohamed

During 2013, the Board Risk Committee met on 3 occasions

asset-liability committee

The Asset-Liability Committee ("ALCO") is responsible for establishing appropriate asset and liability management policies, monitoring their application and reviewing financial information on the basis of which investment and funding decisions are taken.

The Asset-Liability Committee is made up only of members forming part of the management team and the members are:

Margrith Lütschg-Emmenegger (Chairperson)
Armin Eckermann
Marcel Cassar
Carmelo Occhipinti

In addition, Aly Siby, Executive Vice President, Head of Centre of Excellence & Group Coordination, Ivan Fsadni, Chief Risk Officer, Toufic Yafaoui, Head of Treasury and Ronald Mizzi, Head of Finance, are non-voting members of the ALCO and attend all meetings.

During 2013, the ALCO met on 4 occasions.

credit committee

The Credit Committee ("CC") is a Committee appointed by the Board of Directors of FIMBank. The CC is directly responsible and accountable to the Board. The Board may delegate any of its authorities and powers in relation to the CC to the Board Risk Committee (BRC). The CC's main powers and duties are to:

a. Review credit applications and approve credit limits and specific transactions, up to the legal lending limit of the Bank and within the guidelines specified in the Group's credit policy procedures;

b. Recommend credit limits to the BRC or the Board for approval, as the case may be, when this is required according to the Bank's credit policy procedures; in particular, the CC will analyse and recommend country limits for approval by the Board;

c. Inform and recommend about other risk (including but not limited to market, liquidity, operational and reputational risk) when this is deemed relevant for the credit decisions to be taken by the CC.

The Credit Committee members are:

John C. Grech (Chairman)
Rabih Soukarieh (Vice-Chairman)
Fakih Ahmed Mohamed
Margrith Lütschg-Emmenegger
Armin Eckermann
Marcel Cassar
Simon Lay
Michael Davis

In addition, Ivan Fsadni, Chief Risk Officer, is a non-voting member of the CC.

During 2013, the CC met on 27 occasions.

governance committee

The Governance Committee was set-up in May 2013. The purpose of such Committee is to review the bank's internal delegations, policies and procedures to ensure compliance with legislative and regulatory requirements and alignment to industry best practice.

The Governance Committee also serves as the Evaluation Committee, a committee created to evaluate the performance of Directors.

The Governance Committee members are:

Majed Essa Al-Ajeel (Chairman)
John C. Grech (Vice-Chairman)
Margrith Lütschg-Emmenegger

principles 9 and 10: commitment to institutional shareholders, an informed market and transparency in dealings by directors, management and staff

The Chairman should arrange for all directors including the chairmen of all the Committees to be available to answer questions at the Annual General Meeting. All eligible shareholders are served with a notice to attend the Annual General Meeting, which is held during the first half of the year. The notice contains all the resolutions proposed for approval by the Annual General Meeting and, as necessary, notes accompanying such resolutions. Pursuant to the Companies Act, notices are delivered to shareholders at least 14 clear days before the date of the Annual General Meeting. Advance notification of the resolutions proposed for approval is also given by way of a Company Announcement as soon as these are decided and approved, normally at the same Board meeting that approves the Annual Financial Statements. The Board also considers the Annual Report to be an effective document which, in addition to the statutory disclosures, contains detailed information about the Group's performance. Moreover, the Board ensures that the Annual General Meeting serves as a medium at which information is communicated to shareholders in a transparent and accountable manner. Additionally, the Bank holds meetings from time to time with financial intermediaries and financial market practitioners to disseminate information about the Group's progress, activities and financial performance. These meetings are usually organised to follow the publication of the half yearly and annual financial results as well as in connection with other Group developments and events.

The Board complies with the provisions of the Bank's Memorandum and Articles of Association, as well as all legislation, rules and regulations that require it to maintain a fair and informed market in the Bank's equity securities. It discharges its obligations by having in place formal procedures for dealing with potentially price-sensitive information and ensuring the proper conduct of its officers and staff in that regard. Regular contact with shareholders and the general market is maintained through company announcements, which are issued in conformity with the obligations arising from the Listing Rules. During 2013 the Bank issued twenty-one announcements. More specifically, in accordance with Listing Rules 5.86 et seq., two announcements were made regarding the Interim Directors' Statements, on 16 May 2013 and 20 November 2013 respectively.

The Board also complies with the provisions of the Bank's Articles of Association insofar as minority rights are concerned. In accordance with the Bank's Articles of Association minority shareholders may convene an extraordinary general meeting, in the same manner, as nearly as possible, as that in which meetings may be convened by the directors.

The Bank also maintains a presence on the web through www.fimbank.com, which includes an informative and comprehensive 'Investor Relations' section that contains, amongst other things, all company announcements, Annual General Meeting information, regulated information and press releases.

The "FIMBank Financial Instruments Internal Code of Dealing" which has been drawn up in accordance with the requirements of the Listing Rules contains dealings restriction guidelines and reporting procedures to be observed by Directors, Management and Staff when dealing, or prospecting to deal, in the Bank's equity securities. Directors and employees are also notified by the Company Secretary of their obligations to observe the restricted 'time-windows' accompanying the publication of half yearly and annual financial results during which no dealings in the Bank's equity securities are allowed.

Control by any shareholder, whether direct or indirect, and any potential abuse thereof, is regulated by the Banking Act and Rules issued thereunder. The Act and such Rules provide mechanisms for, and obligations on, persons intending to acquire control, as well as on all Directors and management, to notify and report to the supervisory authorities in such eventuality. There are additional obligations obtaining on Directors in terms of the Listing Rules and there is good communication in place between the management, the company secretariat and the Board to ensure that any issues are flagged and acted appropriately.

principle 11: conflicts of interest

While the overall tone for instilling a strong culture about the proper management of conflicts of interest is set at the top, situations of potential conflicts of interest with Board members are in the first instance specifically regulated by clauses 119 and 120 of the Bank's Articles of Association. In terms of the Articles of Association, whenever a conflict of interest situation, real or potential, arises in connection with any matter, the interest has to be declared. In particular, the Director concerned refrains from taking part in proceedings relating to the matter and his vote is excluded from the count of the decision. The minutes of Board meetings, as well as those of Board Committees, invariably include a suitable record of such declaration and of the action taken by the individual Director concerned. Similar arrangements apply to management in the course of the conduct of their duties at Board Committees. Besides, where Directors and management have related party involvements, these are reported and it is an integral part of the Audit Committee's terms of reference to provide oversight on related party transactions.

The number of shares held in the Bank by Directors directly in their name as at 31 December 2013 is as follows:

John C. Grech * (Chairman)	575,747 - Same as at 2012
Masaud M. J. Hayat * (Vice Chairman)	Nil
Fouad M. T. Alghanim*	8,935,215 - Same as at 2012
Majed Essa Al-Ajeel *	Nil
Hamad M. B. M. Al-Sayer *	Nil
Eduardo Eguren Linsen*	Nil
Adrian Alejandro Gostuski *	Nil
Rogers LeBaron	Nil
Mohammed I. H. Marafie *	511,596
Fakih Ahmed Mohamed*	Nil
Rabih Soukarieh*	Nil

Aside from these direct interests in the shareholding of the Bank, the directors marked above with an * are considered to be associated with companies that hold a beneficial interest in the Bank's shareholding. Other than in the case of the IFC – who has the right to appoint a Director pursuant to the Bank's Memorandum of Association - no shareholder is entitled to any automatic right to nominate or appoint a director on the Board. Details of outstanding loans, guarantees or similar facilities made available to related parties or beneficial interests thereof, including directors, are disclosed in the Notes to the Financial Statements.

principle 12: corporate social responsibility

The Board of Directors encourages that sound principles of corporate social responsibility are adhered to in the ongoing management practices of the Group. As a result, from time to time the Bank and its subsidiaries are involved in supporting initiatives at both national and community level aimed at contributing to economic and societal development. They also assist and promote small-scale projects of a charitable and humanitarian nature. Details of corporate social responsibility initiatives undertaken by the Group in 2013 are explained in other parts of the Annual Report.

part 2: non-compliance with the principles

principle 4: succession policy for directors

Whereas Listing Rule 4.2.7 calls on the Directors to develop a succession policy for the future composition of the Board, and "particularly the executive component thereof, for which the Chairman should hold key responsibility", this is considered to be not applicable in view of the fact that the Board is composed solely of non-executive members. On the other hand, a succession policy for management is in place and is reviewed by the Compensation Committee.

principle 5: board meetings

The Board held 8 meetings during 2013, of which 6 were held with Directors being asked to attend in person while 2 were held via long-distance conferencing facilities. The overall attendance rate for the 6 physical meetings was 95% while for the 2 held by conferencing the attendance rate was 91%. So far, there has not been the practice of communicating the individual attendance of shareholders at meetings to the Annual General Meeting. In cases where a Board Member has been absent from attending successive meetings, the Board considers the overall commitment, support and contribution of that Director aside from the mere physical attendance at meetings, especially where the Director is representing an important equity interest in the Bank.

principle 8: nomination committee

The manner in which the Directors are nominated for appointment follows the procedure set out in the Articles of Association, i.e. any nomination must be seconded by a member or members who in the aggregate hold at least 20,000 shares. This process is also rendered public with an announcement in the Malta press, usually in the first quarter of the financial year and in good time before the Annual General Meeting, which allows at least 10 business days for any nomination to be made to the Company Secretary. Because the Board of Directors comprises a mix of independent and non-independent Board members which has thus far reflected fairly the balance between larger and smaller shareholders, past nominations have tended to be initiated by the Chairman with the incumbent Board members who identify and approach potential candidates for office. Consequently, the need to create a specific Nominations Committee has not been considered necessary, however the matter will be kept under review for the future.

principle 8: remuneration committee

As a result of a change in the Board of Directors of the Bank and consequently a change of the Chairperson of the Remuneration Committee, the existing Chairman of the Remuneration Committee is not an independent member in terms of the Listing Rules, as required in terms of Principle 8.A.1 of the Code of Principles of Good Corporate Governance. This notwithstanding, the Bank considers the non-compliance with this principle not to be of concern in view of the fact that Mr Masaud M.J. Hayat has signed a written declaration of independence.

internal control

The Board is ultimately responsible for the identification and evaluation of key risks applicable to the different areas of the business of the Group, and for ensuring that proper systems of internal control are in place. The Board has delegated Management with the task of creating an effective control environment to the highest possible standards. The internal audit function performs periodic audits to specifically test compliance with policies, standards and procedures and the effectiveness of the internal control environment within the Group. To ensure the effectiveness of the internal systems of control the Head of Internal Audit reviews and tests such systems independently from Management, adopting a risk-based approach. The Internal Auditor reports to the Audit Committee, however, the Chairman of the Board of Directors is copied with all internal audit reports issued.

The Board has identified key features within the Group's environment of internal controls to ensure compliance with the Principles. The Management is responsible for the identification and evaluation of key risks applicable to the respective areas of business. The Board receives regular reports from Management giving detailed and comprehensive analysis of financial and operational performance, including variance analysis between budgeted and actual figures, activities and prospects.

It is also hereby declared that the contents of the Directors' Report and of this Statement of Compliance with the Principles of Good Corporate Governance cover the requirements of the provisions of Listing Rule 5.97.

Approved by the Board of Directors on 11 March 2014 and signed on its behalf by:

John C. Grech
Chairman

Masaud M. J. Hayat
Vice Chairman

remuneration report

For the year ended 31 December 2013

1. terms of reference and membership

The Compensation Committee (the "Committee") is responsible for reviewing and making decisions on the Board of Directors' remuneration and that of the senior executives.

Prior to the Annual General Meeting ("AGM") of 2 May 2013, the Committee was composed of John D. Freeman (Chairman), Mehdi R. Malaki and Jacques Leblanc (Secretary). Margrith Lütschg-Emmenegger, Group President, also attends the Commitee meetings.

Following the said AGM, the Committee is now composed of Masaud M.J. Hayat (Chairman), Majed Essa Al-Ajeel and Rogers David LeBaron and John C. Grech. Margrith Lütschg-Emmenegger, Group President, also attends the Commitee meetings.

2. meetings

The Committee met three times during the period under review, which meetings were attended as follows:

Members	Attended
John D. Freeman	1
Jacques Leblanc	1
Mehdi R. Malaki	1
John C. Grech	2
Masaud M.J. Hayat	2
Rogers LeBaron	2
Majed Essa Ahmed Al-Ajeel	2

The following matters were determined and/or discussed:

a. Salary reviews, bonuses and share options for Group employees
b. Senior management promotions
c. Share option schemes for subsidiaries of the Bank
d. New senior positions relating to reorganization and new Organisation Chart
e. Staff costs against budget
f. Remuneration policy for Directors and senior executives

3. remuneration statement

The Committee has the role of making recommendations on the Board of Directors' remuneration. The guiding principle, as outlined in the remuneration policy, is that the remuneration and other terms of employment for the Directors shall be competitive to ensure that the Group attracts and retains outstanding individuals of integrity, calibre, credibility and who have the necessary skills and experience to bring an independent judgement to bear on the issues of strategy, performance and resources for the success of the Group.

The Annual General Meeting of shareholders approves the maximum annual aggregate remuneration which the Directors may receive for the holding of their office. At the Annual General Meeting of the 2 May 2013 the shareholders approved the maximum aggregate emoluments of the Directors for the financial year ending 31 December 2013 at USD350,000. No Director, in his capacity as a Director of the Bank, is entitled to profit sharing, share options or pension benefits. The Board Committee fees for the financial year ending 31st December 2013 amounted to USD306,526.

4. code provision 8.A.5

For 2013, the total payments received by Directors were:

Fixed remuneration	USD306,525
Variable remuneration	-
Executive share options	NIL
Expenses related to meetings	USD134,567

Apart from a fixed annual emolument, Directors are also remunerated depending upon which committee they sit on.

For Senior Executives, namely the President and the Executive Vice Presidents, the remuneration package ensures the right qualities and skills for the proper management of the Group as well as the proper execution of the strategy devised by the Board of Directors. There have been no significant changes in the Group's remuneration policy during the financial year under review, and no significant changes are envisaged for year ending 2014.

The various remuneration components for Executives are:

a) fixed remuneration;
b) variable remuneration;
c) executive share options; and
d) others e.g. company car, subsidised home loans and other fringe benefits.

which are combined to ensure an appropriate and balanced remuneration package that reflects the employee's rank in the Bank and professional activity as well as external market practice.

For 2013, the total emoluments received by Senior Executives were:

Fixed remuneration	USD1,874,801
Variable remuneration	USD644,556
Executive share options	NIL
Expenses/fringe benefits	USD141,983

The Committee decisions are made within the guidelines set by the Board of Directors when reviewing the Group Budget.

directors’ responsibility for the financial statements

The Companies Act, 1995 (Chapter 386, Laws of Malta) requires the directors of FIMBank p.l.c. (the “Bank”) to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank and the Group as at the end of the financial year and of the profit or loss of the Bank and the Group for that period in accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) and the Banking Act, 1994 (Chapter 371, Laws of Malta).

The Directors are also responsible for safeguarding the assets of the Bank and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors, through oversight of management, are responsible to ensure that the Bank and the Group establish and maintain internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the Directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Bank’s business. This responsibility includes establishing and maintaining controls pertaining to the Bank’s and Group’s objective of preparing financial statements as required by the Companies Act, 1995 (Chapter 386, Laws of Malta) and managing risks that may give rise to material misstatements in those financial statements.

In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors by:

John C. Grech
Chairman

Masaud M. J. Hayat
Vice Chairman

statements of financial position

As at 31 December 2013

	Note	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
ASSETS					
Balances with the Central Bank of Malta, Treasury Bills and cash	18	69,707,225	20,831,547	69,680,966	20,818,657
Trading assets	19	272,831,977	245,061,077	-	-
Derivative assets held for risk management	20	828,234	893,552	883,480	939,512
Financial assets designated at fair value through profit or loss	21	17,700,000	55,589,393	17,700,000	55,589,393
Loans and advances to banks	22	337,975,471	396,320,420	328,578,318	392,215,931
Loans and advances to customers	23	417,469,537	329,330,290	593,801,221	476,424,777
Investments available-for-sale	24	26,476,204	92,742	26,475,502	92,040
Investments held-to-maturity	25	6,783,621	-	6,783,621	-
Investments in equity accounted investees	26	22,276,790	27,810,254	6,013,425	6,013,425
Investments in subsidiaries	27	-	-	79,234,301	78,234,301
Property and equipment	28	39,006,893	34,790,467	2,070,762	2,180,245
Intangible assets	29	1,342,722	1,335,559	715,513	622,001
Current tax assets		2,064,313	1,416,225	2,064,316	1,416,225
Deferred taxation	30	13,243,752	11,196,161	6,494,506	4,456,996
Other assets	31	4,992,409	3,925,264	3,984,761	2,581,299
Prepayments and accrued income	32	3,067,655	1,815,224	2,635,135	1,405,124
Total assets		1,235,766,803	1,130,408,175	1,147,115,827	1,042,989,926
LIABILITIES AND EQUITY					
Liabilities					
Derivative liabilities held for risk management	20	506,477	791,622	506,477	791,622
Amounts owed to banks	33	603,452,860	431,841,922	593,551,588	412,808,494
Amounts owed to customers	34	431,686,766	454,857,480	414,846,277	427,387,411
Debt securities in issue	35	35,498,006	51,956,119	-	43,141,189
Subordinated debt	36	-	40,122,813	-	40,122,813
Provisions	37	1,360,910	3,034,789	-	1,733,104
Other liabilities		368,017	409,346	368,015	409,346
Accruals and deferred income	38	14,137,625	16,753,818	5,039,952	5,858,275
Total liabilities		1,087,010,661	999,767,909	1,014,312,309	932,252,254
Equity					
Share capital	39	89,599,085	71,471,801	89,599,085	71,471,801
Share premium	39	19,820,564	8,028,945	19,820,564	8,028,945
Reserve for general banking risks	39	80,893	-	80,893	-
Currency translation reserve	39	(6,397,892)	(3,832,562)	-	-
Fair value reserve	39	159,362	(97,470)	159,362	(97,470)
Other reserve	39	2,681,041	10,463,255	2,681,041	2,681,041
Retained earnings	39	42,813,089	44,606,297	20,462,573	28,653,355
Total equity		148,756,142	130,640,266	132,803,518	110,737,672
Total liabilities and equity		1,235,766,803	1,130,408,175	1,147,115,827	1,042,989,926

statements of financial position

As at 31 December 2013

	Note	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
MEMORANDUM ITEMS					
Contingent liabilities	40	25,658,655	73,271,995	61,549,236	82,152,480
Commitments	41	269,423,193	205,344,075	237,393,657	173,120,939

The official middle rate of exchange issued by the European Central Bank between US Dollar and Euro as at 31 December 2013 was 1.3791.

The notes on pages 44 to 119 are an integral part of these financial statements.

The financial statements on pages 36 to 119 were approved and authorised for issue by the Board of Directors on 11 March 2014 and were signed on its behalf by:

John C. Grech
Chairman

Masaud M. J. Hayat
Vice Chairman

statements of changes in equity

For the year ended 31 December 2013

Group

	Share capital USD	Share premium USD	Reserve for general banking risks USD	Currency translation reserve USD	Fair Value Reserve USD	Other reserve USD	Retained earnings USD	Total USD
At 1 January 2012	68,318,160	10,474,390	-	(2,974,934)	(97,470)	12,442,022	36,567,031	124,729,199
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	8,798,533	8,798,533
	-	-	-	-	-	-	8,798,533	8,798,533
Other comprehensive income								
Currency translation reserve	-	-	-	(857,628)	-	-	-	(857,628)
Total other comprehensive income	-	-	-	(857,628)	-	-	-	(857,628)
Total comprehensive income for the year	-	-	-	(857,628)	-	-	8,798,533	7,940,905
Transactions with owners, recorded directly in equity								
Bonus issue of shares	2,732,948	(2,732,948)	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	(2,738,034)	(2,738,034)
Scrip issue of ordinary shares	420,693	287,503	-	-	-	-	-	708,196
Total contributions by and distributions to owners	3,153,641	(2,445,445)	-	-	-	-	(2,738,034)	(2,029,838)
Transfer to retained earnings	-	-	-	-	-	(1,978,767)	1,978,767	-
As at 31 December 2012	71,471,801	8,028,945	-	(3,832,562)	(97,470)	10,463,255	44,606,297	130,640,266
At 1 January 2013	71,471,801	8,028,945	-	(3,832,562)	(97,470)	10,463,255	44,606,297	130,640,266
Total comprehensive income for the year								
Loss for the year	-	-	-	-	-	-	(4,215,409)	(4,215,409)
	-	-	-	-	-	-	(4,215,409)	(4,215,409)
Other comprehensive income								
Change in fair value of available-for-sale assets	-	-	-	-	256,832	-	-	256,832
Currency translation reserve	-	-	-	(2,565,330)	-	-	-	(2,565,330)
Total other comprehensive income	-	-	-	(2,565,330)	256,832	-	-	(2,308,498)
Total comprehensive income for the year	-	-	-	(2,565,330)	256,832	-	(4,215,409)	(6,523,907)
Transactions with owners, recorded directly in equity								
Issue of new shares, net of transaction costs	18,127,284	11,791,619	-	-	-	-	-	29,918,903
Dividends to equity holders	-	-	-	-	-	-	(5,279,120)	(5,279,120)
Total contributions by and distributions to owners	18,127,284	11,791,619	-	-	-	-	(5,279,120)	24,639,783
Transfer to reserve for general banking risks	-	-	80,893	-	-	-	(80,893)	-
Transfer to retained earnings	-	-	-	-	-	(7,782,214)	7,782,214	-
As at 31 December 2013	89,599,085	19,820,564	80,893	(6,397,892)	159,362	2,681,041	42,813,089	148,756,142

statements of changes in equity

For the year ended 31 December 2013

Bank

	Share capital USD	Share premium USD	Currency translation reserve USD	Fair value reserve USD	Other reserve USD	Retained earnings USD	Total USD
At 1 January 2012	68,318,160	10,474,390	-	(97,470)	2,681,041	29,863,237	111,239,358
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	1,528,152	1,528,152
	-	-	-	-	-	1,528,152	1,528,152
Transactions with owners, recorded directly in equity							
Bonus issue of shares	2,732,948	(2,732,948)	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	(2,738,034)	(2,738,034)
Scrip issue of ordinary shares	420,693	287,503	-	-	-	-	708,196
Total contributions by and distributions to owners	3,153,641	(2,445,445)	-	-	-	(2,738,034)	(2,029,838)
As at 31 December 2012	71,471,801	8,028,945	-	(97,470)	2,681,041	28,653,355	110,737,672
At 1 January 2013	71,471,801	8,028,945	-	(97,470)	2,681,041	28,653,355	110,737,672
Total comprehensive income for the year							
Loss for the year	-	-	-	-	-	(2,830,769)	(2,830,769)
	-	-	-	-	-	(2,830,769)	(2,830,769)
Other comprehensive income							
Change in fair value of available-for-sale assets	-	-	-	256,832	-	-	256,832
Total other comprehensive income	-	-	-	256,832	-	-	256,832
Total comprehensive income for the year	-	-	-	256,832	-	(2,830,769)	(2,573,937)
Transactions with owners, recorded directly in equity							
Issue of new shares, net of transaction costs	18,127,284	11,791,619	-	-	-	-	29,918,903
Dividends to equity holders	-	-	-	-	-	(5,279,120)	(5,279,120)
Total contributions by and distributions to owners	18,127,284	11,791,619	-	-	-	(5,279,120)	24,639,783
Transfer to reserve for general banking risks	-	-	80,893	-	-	(80,893)	-
As at 31 December 2013	89,599,085	19,820,564	80,893	159,362	2,681,041	20,462,573	132,803,518

The notes on pages 44 to 119 are an integral part of these financial statements.

income statements

For the year ended 31 December 2013

		Group		Bank	
	Note	2013 USD	2012 USD	2013 USD	2012 USD
Interest income	8	35,756,117	30,177,040	25,308,593	21,815,348
Interest expense	8	(19,814,462)	(17,201,281)	(18,318,032)	(16,288,411)
Net interest income	8	15,941,655	12,975,759	6,990,561	5,526,937
Fee and commission income	9	25,528,149	23,169,507	16,004,841	15,543,409
Fee and commission expense	9	(2,635,107)	(2,471,295)	(1,339,461)	(1,304,577)
Net fee and commission income	9	22,893,042	20,698,212	14,665,380	14,238,832
Net trading results	10	(8,132,249)	(4,875,179)	(765,622)	(7,377,031)
Net gain from other financial instruments carried at fair value	11	2,749,361	11,225,546	2,757,693	11,262,875
Dividend income	12	691	699	691	699
Other operating income	13	18,582	15,795	25,591	5,290
Operating income before net impairment		33,471,082	40,040,832	23,674,294	23,657,602
Net impairment loss on financial assets	14	(6,546,151)	(1,323,275)	(6,709,515)	(1,690,609)
Operating income		26,924,931	38,717,557	16,964,779	21,966,993
Administrative expenses	15	(27,462,659)	(27,003,171)	(20,552,916)	(19,730,475)
Depreciation and amortisation	28/29	(2,208,349)	(1,481,903)	(741,316)	(666,464)
Provisions	37	(676,921)	-	(676,921)	-
Total operating expenses		(30,347,929)	(28,485,074)	(21,971,153)	(20,396,939)
Operating (loss)/profit		(3,422,998)	10,232,483	(5,006,374)	1,570,054
Share of loss of equity accounted investees (net of tax)	26	(2,977,398)	(1,390,319)	-	-
(Loss)/profit before tax		(6,400,396)	8,842,164	(5,006,374)	1,570,054
Taxation	16	2,184,987	(43,631)	2,175,605	(41,902)
(Loss)/profit for the year		(4,215,409)	8,798,533	(2,830,769)	1,528,152
Basic earnings per share	17	(2.66c)	6.17c	(1.79c)	1.07c
Diluted earnings per share	17	(2.65c)	6.17c	(1.78c)	1.07c

The notes on pages 44 to 119 are an integral part of these financial statements.

statements of comprehensive income

For the year ended 31 December 2013

	Group		Bank	
	2013 USD	2012 USD	2013 USD	2012 USD
(Loss)/profit for the year	(4,215,409)	8,798,533	(2,830,769)	1,528,152
Other comprehensive income:				
Items that are, or may be, reclassified to profit or loss				
Exchange differences on translation of foreign operations	(2,565,330)	(857,628)	-	-
Fair value reserve (available-for-sale financial assets):				
- Net change in fair value	395,126	-	395,126	-
- Related tax	(138,294)	-	(138,294)	-
Other comprehensive income, net of tax	(2,308,498)	(857,628)	256,832	-
Total comprehensive income for the year	(6,523,907)	7,940,905	(2,573,937)	1,528,152

The notes on pages 44 to 119 are an integral part of these financial statements.

statements of cash flows

For the year ended 31 December 2013

	Group		Bank	
	2013 USD	2012 USD	2013 USD	2012 USD
Cash flows from operating activities				
Interest and commission receipts	58,475,080	59,369,117	41,508,724	40,237,707
Exchange received/(paid)	2,514,456	50,576	2,307,029	(213,719)
Interest and commission payments	(21,277,430)	(19,388,240)	(18,550,556)	(17,346,733)
Payments to employees and suppliers	(29,621,619)	(29,867,457)	(21,620,220)	(19,684,149)
Operating profit before changes in operating assets / liabilities	10,090,487	10,163,996	3,644,977	2,993,106
Increase/(decrease) in operating assets:				
- Financial assets at fair value through profit or loss	4,120,251	(25,842,927)	37,345,323	(13,187,393)
- Investments held-to-maturity	(6,783,621)	-	(6,783,621)	-
- Loans and advances to customers and banks	(102,387,661)	(102,125,296)	(94,462,015)	(94,621,058)
- Other assets	(1,067,141)	(418,117)	(1,403,462)	192,314
Increase/(decrease) in operating liabilities:				
- Amounts owed to customers and banks	32,704,845	204,880,800	52,602,374	169,106,891
- Other liabilities and provisions	(2,451,357)	314,954	(2,451,357)	314,954
- Net advances from/(to) subsidiary companies	-	-	(37,003,304)	15,569,506
Net cash (outflows)/inflows from operating activities before income tax	(65,774,197)	86,973,410	(48,511,085)	80,368,320
Income tax paid	(648,990)	(1,001,543)	(648,293)	(999,665)
Net cash flows (used in)/from operating activities	(66,423,187)	85,971,867	(49,159,378)	79,368,655
Cash flows from investing activities				
- Payments to acquire property and equipment	(5,980,646)	(9,833,839)	(434,749)	(776,240)
- Payments to acquire intangible assets	(460,022)	(249,818)	(292,256)	(176,799)
- Proceeds on disposal of property and equipment	7,313	79,654	7,243	6,812
- Investment in subsidiary companies	-	-	(1,000,000)	(4,752,942)
- Purchase of shares in equity accounted investees	-	(7,552,941)	-	(2,800,000)
- Additional investment in investments available-for-sale	(25,988,335)	-	(25,988,335)	-
- Receipt of dividend	691	699	691	699
Net cash flows used in investing activities	(32,420,999)	(17,556,245)	(27,707,406)	(8,498,470)
(Decrease)/increase in cash and cash equivalents c/f	(98,844,186)	68,415,622	(76,866,784)	70,870,185

statements of cash flows

For the year ended 31 December 2013

	Note	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
(Decrease)/increase in cash and cash equivalents b/f		(98,844,186)	68,415,622	(76,866,784)	70,870,185
Cash flows from financing activities					
- Proceeds from the issue of share capital		29,918,903	-	29,918,903	-
- Net (repayment)/issue of debt securities		(17,580,736)	606,536	(44,263,812)	-
- Repayment of subordinated debt		(42,224,862)	(1,714,286)	(42,224,862)	(1,714,286)
- Dividends paid		(5,279,120)	(2,029,838)	(5,279,120)	(2,029,838)
Net cash flows used in financing activities		(35,165,815)	(3,137,588)	(61,848,891)	(3,744,124)
(Decrease)/increase in cash and cash equivalents		(134,010,001)	65,278,034	(138,715,675)	67,126,061
Analysed as follows:					
- Effect of exchange rate changes on cash and cash equivalents		4,999,188	1,779,083	4,996,191	1,732,571
- Net (decrease)/increase in cash and cash equivalents		(139,009,189)	63,498,951	(143,711,866)	65,393,490
(Decrease)/increase in cash and cash equivalents		(134,010,001)	65,278,034	(138,715,675)	67,126,061
Cash and cash equivalents at beginning of year		127,760,024	62,481,990	122,477,077	55,351,016
Cash and cash equivalents at end of year	42	(6,249,977)	127,760,024	(16,238,598)	122,477,077

The notes on pages 44 to 119 are an integral part of these financial statements.

notes to the financial statements

For the year ended 31 December 2013

notes to the financial statements

For the year ended 31 December 2013

1 reporting entity

FIMBank p.l.c. (the "Bank") is a company domiciled in Malta. The address of the Bank's registered office is Mercury Tower, The Exchange Financial and Business Centre, Elia Zammit Street, St. Julian's STJ 3155, Malta. The financial statements of the Bank as at and for the year ended 31 December 2013 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

2 basis of preparation

2.1 statement of compliance

The financial statements have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU ("the applicable framework"). All references in these financial statements to IAS, IFRS or SIC / IFRIC interpretations refer to those adopted by the EU.

These financial statements have also been drawn up in accordance with the provisions of the Banking Act, 1994 (Chapter 371, Laws of Malta) and the Companies Act, 1995 (Chapter 386, Laws of Malta).

The financial statements were authorised for issue by the Board of Directors on 11 March 2014.

2.2 basis of measurement

The financial statements have been prepared on the historical cost basis except for the following which are measured at fair value:

- trading assets;
- derivative financial instruments;
- financial instruments designated at fair value through profit or loss; and
- available-for-sale financial assets.

2.3 functional and presentation currency

These financial statements are presented in United States Dollar (USD), which is the Bank's functional currency.

2.4 use of judgements and estimates

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2.4.1 *key sources of estimation uncertainties*

allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.10.7.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Risk Management function.

2 *basis of preparation - continued*

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these reflect future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.10.6. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The fair value hierarchy that reflects the significance of the inputs used in measuring financial instruments is set out in note 5.1.

2.4.2 *critical accounting judgements in applying the Group's accounting policies*

impairment losses on loans and advances

The Group reviews its loan portfolio to assess impairment on an ongoing basis as relevant generic data is observed concerning risks associated with groups of loans with similar risk characteristics. As a result, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before the decrease is actually identified with an individual loan in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the relative economic situation of an asset group or in the credit status of borrowers in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

impairment of investments available-for-sale

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. If a decline in the fair value of an equity security is not significant or prolonged, then the Group considers if there are additional factors that indicate an impairment has occurred. This assessment is performed for all equity securities whose fair value is below cost, but for which the decline in fair value is not considered significant or prolonged.

2.5 changes in accounting policies

Except for the changes below, Group entities have consistently applied the accounting policies as set out in Note 3 to all periods presented in these financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

2.5.1 *IFRS 13 fair value measurement*

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value, as set out in Note 3.10.6, prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, but the Group has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Group has provided the relevant comparative disclosures under those standards.

2.5.2 *presentation of items of other comprehensive income (amendments to IAS 1).*

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

2 basis of preparation - continued

2.5.3 *disclosures – offsetting financial assets and financial liabilities (amendments to IFRS 7)*

As a result of the amendments to IFRS 7, the Group has added disclosures about offsetting financial assets and financial liabilities (see note 4.2).

3 significant accounting policies

Except for the changes explained in Note 2.5, the Group has consistently applied the following accounting policies to all periods presented in these financial statements.

Certain comparative amounts in the statements of comprehensive income have been re-presented as a result of a change in the accounting policy regarding the presentation of items of other comprehensive income (see Note 2.5.2).

3.1 basis of consolidation

3.1.1 *business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

3.1.2 *subsidiaries*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

3.1.3 *associates and jointly-controlled entities*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

3.1.4 *transactions eliminated on consolidation*

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 foreign currency

3.2.1 *foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined.

Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recognised directly in other comprehensive income. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

3.2.2 *foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into US Dollar at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into US Dollar at spot exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and accumulated in the foreign currency translation reserve, except to the extent that the translation difference is allocated to non-controlling interest. When a foreign operation is disposed of such that control is lost, the cumulative amount in the currency translation reserve is transferred to profit or loss as part of the gain or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation whilst retaining control then the relevant proportion of the cumulative amount is re-attributed to non-controlling interest.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in other comprehensive income, and accumulated in the translation reserve within equity.

3.3 interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and commissions paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest method;
- interest on available-for-sale investment securities calculated on an effective interest basis;
- interest on trading assets and liabilities;
- interest on financial assets designated at fair value through profit or loss.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

3 *significant accounting policies - continued*

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net gain/(loss) from other financial instruments at fair value through profit or loss in the statement of comprehensive income.

3.4 fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3.5 net trading income or expense

Net trading income or expense comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

3.6 net gain or loss from other financial instruments at fair value through profit or loss

Net gain or loss from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes and foreign exchange differences.

3.7 dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

3.8 lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

3.9 income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

3.10 financial assets and liabilities

3.10.1 *recognition*

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. All other financial instruments (including regular way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.10.2 *classification*

financial assets

The Group classifies its financial assets into one of the following categories:
- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at fair value through profit or loss, and within this category as:
  - held for trading; or
  - designated at fair value through profit or loss.

financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

See accounting policies 3.11, 3.12, 3.13, 3.14 and 3.15.

3.10.3 *derecognition*

financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

The derecognition criteria are also applied to the transfer of part of an asset, rather than the asset as a whole, or to a group of similar financial assets in their entirety, when applicable. If transferring a part of an asset, such part must be a specifically identified cash flow, a fully proportionate share of the asset, or a fully proportionate share of a specifically identified cash flow.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or

3 *significant accounting policies - continued*

substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

3.10.4 *offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.10.5 *amortised cost measurement*

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.10.6 *fair value measurement*

policy applicable from 1 January 2013

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

3 *significant accounting policies - continued*

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

policy applicable before 1 January 2013

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, that is the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

3.10.7 *identification and measurement of impairment*

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment

3 *significant accounting policies - continued*

securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through other comprehensive income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in other comprehensive income.

The Group writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Group determines that there is no realistic prospect of recovery (see note 4).

3.10.8 *designated at fair value through profit or loss*

The Group has designated financial assets and liabilities at fair value through profit or loss in either of the following circumstances:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; and
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Note 6 sets out the amount of each class of financial asset or financial liability that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

3 significant accounting policies - continued

3.11 cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, treasury bills, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Loans and advances to banks and amounts owed to banks that are repayable on demand or have a contractual maturity of three months or less and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows. Subsequent to initial recognition cash equivalents are measured at amortised cost.

3.12 trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income or expense in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss upon initial recognition, may be reclassified out of the fair value through profit or loss (i.e. trading) category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

• If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity;
• If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

3.13 derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The Group did not designate any derivatives as hedging instruments in qualifying hedging relationships. As a result, all changes in fair value of derivatives are recognised immediately in profit or loss as a component of net gain or loss from other financial instruments at fair value through profit or loss.

3.14 loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

3.15 investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either fair value through profit or loss, available-for-sale, or held to maturity.

3.15.1 *fair value through profit or loss*

The Group designates some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy 3.10.8.

3 *significant accounting policies - continued*

3.15.2 *available-for-sale*

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.
Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes, other than impairment losses (see 3.10.7) are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

3.15.3 *held-to-maturity*

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses (see Note 3.10.7). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

3.16 investments in subsidiaries, associates and jointly-controlled entities

Investments in subsidiaries, associates and joint ventures are shown in the separate statement of financial position at cost less any impairment losses (see Note 3.20).

3.17 property and equipment

3.17.1 *recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognised net within other income or expense in profit or loss.

3.17.2 *subsequent costs*

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

3.17.3 *depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Improvements to leasehold premises are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

• Freehold premises	50 years
• Computer system	7 years
• Computer equipment	5 years
• Others	4 – 14 years

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

3.18 intangible assets

3.18.1 *goodwill*

Goodwill that arises upon the acquisition of subsidiaries is presented in intangible assets (see Note 3.1). Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

3.18.2 *software*

Software acquired by the Group is stated at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is seven years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.19 leased assets – lessee

Leases in terms of which the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases.

Leased assets held under operating lease are not recognised in the Group's statement of financial position.

3.20 impairment of non-financial assets

At each reporting date, the Group reviews the carrying amount of its non-financial assets, other than deferred tax assets, to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that

3 *significant accounting policies - continued*

reflects current market assessments of the time value of money and the risks specific to the asset.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

An impairment loss is recognised if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.21 deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo" or "stock lending"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. The Group did not choose to carry any non-derivative liabilities at fair value through profit or loss.

3.22 provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3.23 financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

3.24 employee benefits

3.24.1 *defined contribution plans*

The Malta-registered Group entities contribute towards a defined contribution state pension plan in accordance with Maltese legislation. Other subsidiaries contribute to other defined contribution plans. The Group does not have a commitment beyond the payment of fixed contributions. Related costs are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

3.24.2 *share-based payment transactions*

The grant date fair value of equity-settled share-based payment awards (i.e. stock options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

3.25 share capital

3.25.1 *ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

3.25.2 *repurchase of share capital*

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

When such shares are later reissued, sold or cancelled, the consideration received is recognised as a change in equity. No gain or loss is recognised in the income statement.

3.26 earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

3.27 segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by Executive Management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to Executive Management include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Unallocated assets comprise mainly corporate assets.

3.28 new standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are effective for the annual periods starting on or after 1 January 2013 have not been applied in preparing these financial statements. Those that may be relevant to the Group are set out below.

IFRS 10 'Consolidated Financial Statements' introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees (see Note 3.1)

IFRS 11 'Joint Arrangements' outlines the accounting by entities that jointly control an arrangement. Joint control involves the contractually agreed sharing of control. Arrangements subject to joint control are classified as either a joint venture (representing a share of net assets and equity accounted) or a joint operation (representing rights to assets and obligations for liabilities, accounted for accordingly). IFRS 11 is not expected to have any impact on the Group because the Group already accounts for its joint arrangements using the equity method of accounting.

3 *significant accounting policies - continued*

IFRS 12 'Disclosure of Interests in Other Entities' brings together into a single standard all the disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires the disclosure of information about the nature, risks and financial effects of these interests. The Group is currently assessing the disclosure requirements in comparison with the existing disclosures.

These standards have been adopted by the EU and are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

4 financial risk review

4.1 introduction and overview

This note presents information about the Group's exposure to financial risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Group has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

risk management framework

The risk factors associated with the banking industry are multiple and varied. Exposure to credit risk, liquidity risk, and market risk arises in the normal course of both the Bank's and the Group's business. As the Group is mainly engaged in trade finance business, control over contingent liabilities and commitments is fundamental since the risks involved are substantively the same as with on-balance sheet items. The Board of Directors (the "Board") is ultimately responsible for the identification and evaluation of key risks applicable to the different areas of the business of the Group and for ensuring that proper systems of internal controls are in place. As from 2014, the Board established a new sub-committee, the Board Risk Committee ("BRC"), with the aim of assisting the Board in fulfilling its responsibilities concerning the establishment and implementation of the Group's risk management strategy, systems and policies. The scope of the Committee's responsibility covers the Bank and all its Group entities. Management is ultimately delegated with the task of creating an effective control environment to the highest possible standards. The internal audit function monitors compliance with policies, standards and procedures and the effectiveness of the internal control environment of the Group. The internal auditor periodically reviews and tests the internal systems of control independently from management, adopting a risk-based approach. The internal auditor reports to the Audit Committee (a Board Committee). All reports are circulated and copied to the Chairman of the Board of Directors.

Adherence to the various banking directives and rules issued by the regulatory authorities from time to time and applicable to credit institutions licensed in Malta is and shall continue to form the basis of the risk control environment of the Group. The Group is committed to ensure strict compliance with the thresholds established by the regulatory framework in relation to capital adequacy, liquidity and other key regulatory ratios, credit management, quality of assets and financial reporting.

4.2 credit risk

Credit risk is the risk that one party to a financial transaction might fail to discharge an obligation and cause the other party to incur a financial loss. As illustrated above, the Group finances international trade in many countries worldwide, especially emerging markets, which in turn entails an exposure to sovereign, bank and corporate credit risk. Credit risk is not only akin to loans but also to other on- and off- balance sheet exposures such as letters of credit, guarantees, acceptances and money market products.

Strict credit assessment and control procedures are in place in order to monitor such exposures. The Group also complies with regulatory guidelines as defined by the Malta Financial Services Authority ("MFSA") and a limit of 25% of Own Funds applies to any particular customer or group of connected customers. During 2014, the Group strengthened the credit and overall risk management function by the segregation of the various roles previously undertaken jointly by the Risk Committees into two separate Board Committees, namely the Board Risk Committee and Credit Committee. The Credit Committee is responsible for overseeing the Group's credit policy and risk and for approving individual limits for banks and corporates within their delegated parameters of authority. Country limits are approved by the Board upon recommendation of the Board Risk Committee. The Credit Committee is also responsible for the oversight of operational,

4 *financial risk review - continued*

legal and reputational risk related to credit activity. Further information on the composition and function of the Credit Committee and Board Risk Committee is found in the "Statement of Compliance with the Principles of Good Corporate Governance".

The Group also ensures that it has a reasonable mix of loans to customers. This diversification of credit among different economic sectors is a policy adopted by the Group to mitigate such risks. The Group also monitors its risk on balances held with other banks by establishing bank and country limits. The risks associated with off-balance sheet assets and liabilities arise from the normal course of banking operations. In the case of risks associated with inter-bank participants under letters of credit, the Group exercises the same credit controls as those applied to on-balance sheet exposures.

All on- and off- balance sheet exposures are approved after a thorough review of the counterparties' credit worthiness. This is done by primarily evaluating the risk rating of the counterparty by reference to established Rating Agencies. In the absence of this and when it is deemed appropriate to do so, review is also done by means of other assessment criteria, including but not limited to, financial statement review.

maximum exposure

Amounts that best represents the Bank and Group's maximum exposure to credit risk at the financial reporting date, without taking account of any collateral held or other credit enhancements are as follows:

Group

	Loans and advances to banks		Loans and advances to customers	
	2013 USD	2012 USD	2013 USD	2012 USD
Individually impaired	46,952	8,481,158	11,023,500	8,571,265
Neither past due nor impaired	337,928,519	387,839,262	406,446,037	320,759,025
Total carrying amount	337,975,471	396,320,420	417,469,537	329,330,290

Bank

	Loans and advances to banks		Loans and advances to customers	
	2013 USD	2012 USD	2013 USD	2012 USD
Individually impaired	46,952	8,481,158	7,808,235	2,958,877
Neither past due nor impaired	328,531,366	383,734,773	585,992,986	473,465,900
Total carrying amount	328,578,318	392,215,931	593,801,221	476,424,777

4 *financial risk review - continued*

credit quality of neither past due nor impaired

The table below presents an analysis of financial assets, which are neither past due nor impaired, by rating agency designation at 31 December, based on Fitch ratings or their equivalent:

Group	Loans and advances to banks		Loans and advances to customers		Trading assets, financial assets designated at fair value through profit or loss and held-to-maturity	
	2013 USD	2012 USD	2013 USD	2012 USD	2013 USD	2012 USD
AAA/AA	915,176	2,370,457	9,889,056	16,558,487	8,283,993	7,670,784
A/BBB	154,121,752	190,131,937	9,342,057	-	71,166,407	101,041,361
BB/Lower	58,345,705	43,021,436	-	-	91,770,321	62,861,620
Unrated	124,545,886	152,315,432	387,214,924	304,200,538	126,094,877	129,076,705
	337,928,519	387,839,262	406,446,037	320,759,025	297,315,598	300,650,470

Bank	Loans and advances to banks		Loans and advances to customers		Financial assets designated at fair value through profit or loss and held-to-maturity	
	2013 USD	2012 USD	2013 USD	2012 USD	2013 USD	2012 USD
AAA/AA	915,176	2,370,460	9,889,056	16,558,487	7,800,000	-
A/BBB	144,166,330	184,909,597	9,343,291	-	16,683,621	31,499,393
BB/Lower	58,345,705	43,021,436	-	-	-	24,090,000
Unrated	125,104,155	153,433,280	566,760,639	456,907,413	-	-
	328,531,366	383,734,773	585,992,986	473,465,900	24,483,621	55,589,393

4 *financial risk review - continued*

impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s).

past due but not impaired loans

Past due but not impaired loans are loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

The Group did not have any exposures that at financial reporting date were past due but not impaired.

renegotiated loans and forbearance

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider.

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. Forbearance refers only to those loan modification or renegotiations in response to actual or perceived financial difficulties of a customer.

A range of forbearance strategies is employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. They include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures, and other forms of loan modifications and re-ageing. Loan forbearance is only granted in situations where the customer has showed a willingness to repay the borrowing and is expected to be able to meet the revised obligations.

A concession granted to a customer as a result of financial difficulties is objective evidence of impairment and impairment losses are measured accordingly. A renegotiated loan is presented as impaired when there has been a change in contractual cash flows as a result of a concession which the Group would otherwise not consider; and it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full. Renegotiated loans are not classified as impaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the renegotiated terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation.

Loans that have been identified as renegotiated retain this designation until maturity or derecognition. When a loan is restructured as part of a forbearance strategy and the restructuring results in a derecognition of the existing loan, the new loan is disclosed as renegotiated. A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument.

For the Group, the aggregate amount of renegotiated and forborne loans at reporting date amounted to USD9,926,511 (31 December 2012: USD11,929,791). For the Bank, the aggregate amount of renegotiated and forborne loans at reporting date amounted to USD7,319,971 (31 December 2012: USD7,192,405). For Bank and Group, all renegotiated and forborne loans at 31 December 2013 (31 December 2012: Nil) are non-performing (individually impaired) with an extendible collateral value of USD6,103,097 (31 December 2012: USD7,121,192). Interest income recognised during 2013 in respect to renegotiated and forborne assets amounts to USD720,944 (31 December 2012: USD Nil).

Movement in forbearance activity during the year is as follows:

	Loans and advances to banks and to customers			
	Group		Bank	
	2013 USD	2012 USD	2013 USD	2012 USD
At 1 January	11,929,791	-	7,192,405	-
Additions	8,176,564	11,929,791	7,316,628	7,192,405
Recovered	(10,179,844)	-	(7,189,062)	-
At 31 December	9,926,511	11,929,791	7,319,971	7,192,405

4 financial risk review - continued

allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Efforts at recovering losses incurred in past financial periods are continuous. To this purpose, legal proceedings have been undertaken in the courts of competent jurisdiction.

write-off policy

The Group writes off a loan/security balance (and any related allowances for impairment losses) when it has been unequivocally determined that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, that proceeds from collateral will not be sufficient to pay back the entire exposure, or that future recoverability efforts are deemed unfeasible.

collaterals

Loans are typically secured either by property (including shipping vessels), pledged goods, cash collateral, credit insurance cover or by personal or bank guarantees. These collaterals are reviewed periodically by management both in terms of exposure to the Bank and the Group and to ensure the validity and enforceability of the security taken.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2013 and 2012.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Group

	Loans and advances to banks		Loans and advances to customers	
	2013 USD	2012 USD	2013 USD	2012 USD
Against neither past due nor impaired				
Cash or quasi cash	39,016,438	28,153,828	32,564,684	24,358,954
Property	-	-	28,927,392	20,830,201
Other	7,862,320	86,107	45,989,123	41,099,474
Against impaired				
Cash or quasi cash	46,951	7,326,391	181,669	388,425
Property	-	-	307,858	1,335,124
Other	-	-	6,102,000	-
	46,925,709	35,566,326	114,072,726	88,012,178

Bank

	Loans and advances to banks		Loans and advances to customers	
	2013 USD	2012 USD	2013 USD	2012 USD
Against neither past due nor impaired				
Cash or quasi cash	39,016,438	28,153,828	32,564,684	24,358,954
Property	-	-	28,927,392	20,830,201
Other	7,862,320	86,107	45,989,123	41,099,474
Against impaired				
Cash or quasi cash	46,951	7,326,391	181,669	388,425
Property	-	-	307,858	1,335,124
Other	-	-	6,102,000	-
	46,925,709	35,566,326	114,072,726	88,012,178

offsetting financial assets and financial liabilities

With the exception of cash collaterals as disclosed in this note and in note 34, the Group and Bank do not carry financial instruments which are subject to offsetting in the statement of financial position. Group entities have a legal enforceable right to offset such collaterals against the respective facilities for which the collateral is taken. At 31 December 2012 and 2013 all financial assets and respective collaterals are disclosed separately in the financial statements without any offsetting.

concentration of credit risk by sector

The following industry concentrations of gross loans and advances to banks and to customers are considered significant:

	Group		Bank	
	2013 USD	2012 USD	2013 USD	2012 USD
Industrial raw materials	74,627,931	50,478,269	62,210,450	66,674,680
Ship pre-demolition	30,038,431	29,867,548	28,455,288	29,867,548
Wholesale and retail trade	208,006,377	186,419,439	171,726,176	166,576,411
Financial intermediation	439,226,718	439,455,511	634,923,850	605,903,311
Other services	25,159,406	35,279,171	46,440,866	14,452,635
	777,058,863	741,499,938	943,756,630	883,474,585

concentration of credit risk by region

The Group monitors concentrations of credit risk by geographic location based on the exposure country of the borrower ("Country risk").

Country risk refers to risks associated with the economic, social and political environment of the obligor's exposure country. A component of country risk is transfer risk which arises when a borrower's obligation is not denominated in the respective local currency. The currency of the obligation may become unavailable to the borrower regardless of its particular condition.

As the Group carries out activities with counter-parties in emerging markets, there are certain risk factors which are particular to such activities and which require careful consideration by prospective investors since they are not usually associated with activities in more developed markets. Such exposure relates to the risks of major political and economic changes including but not limited to, higher price volatility, the effect of exchange control regulations and the risks of expropriation, nationalisation and/or confiscation of assets. The ineffectiveness of the legal and judicial systems in some of the emerging markets, including those in which the Group is carrying out activities, may pose difficulties for the Group in preserving its legal rights.

The Board approves country limits after these are presented with reports covering the political and economic situations for each of the countries to which a limit is issued. Senior officials of the Bank pay regular visits to those countries in which it is already doing business and in those countries where it seeks to develop business, in order to provide a deeper understanding of the risks posed by any such countries.

4 *financial risk review - continued*

Group	Loans and advances to banks		Loans and advances to customers		Trading assets, financial assets designated at fair value through profit or loss and held-to-maturity		Investments available-for-sale	
	2013 USD	2012 USD	2013 USD	2012 USD	2013 USD	2012 USD	2013 USD	2012 USD
Europe	138,768,512	226,597,535	173,954,697	162,691,602	44,391,055	79,144,939	26,401,328	17,866
Sub-Sahara Africa (SSA)	126,356,972	82,791,166	11,668,164	13,408,804	99,240,824	47,433,450	-	-
Middle East and North Africa (MENA)	12,055,226	43,731,791	122,773,674	86,985,645	16,386,072	18,608,833	-	-
Commonwealth of Independent States (CIS)	38,290,474	18,549,476	25,659,887	12,164,449	67,138,503	65,569,253	74,876	74,876
Others	25,033,808	26,759,497	87,166,609	56,486,886	70,159,144	89,893,995	-	-
	340,504,992	398,429,465	421,223,031	331,737,386	297,315,598	300,650,470	26,476,204	92,742
Collective impairment	(2,529,521)	(2,109,045)	(3,753,494)	(2,407,096)	-	-	-	-
	337,975,471	396,320,420	417,469,537	329,330,290	297,315,598	300,650,470	26,476,204	92,742

Bank	Loans and advances to banks		Loans and advances to customers		Financial assets designated at fair value through profit or loss and held to maturity		Investments available-for-sale	
	2013 USD	2012 USD	2013 USD	2012 USD	2013 USD	2012 USD	2013 USD	2012 USD
Europe	139,152,558	227,895,487	365,024,102	323,254,198	9,900,000	23,387,393	26,401,328	17,866
Sub-Sahara Africa (SSA)	126,356,972	82,791,166	11,668,164	13,408,804	-	-	-	-
Middle East and North Africa (MENA)	10,561,679	42,639,662	107,827,589	73,342,751	14,583,621	8,112,000	-	-
Commonwealth of Independent States (CIS)	38,273,199	18,537,908	25,659,887	12,164,449	-	19,840,000	74,174	74,174
Others	16,763,431	22,460,753	87,166,609	56,486,888	-	4,250,000	-	-
	331,107,839	394,324,976	597,346,351	478,657,090	24,483,621	55,589,393	26,475,502	92,040
Collective impairment	(2,529,521)	(2,109,045)	(3,545,130)	(2,232,313)	-	-	-	-
	328,578,318	392,215,931	593,801,221	476,424,777	24,483,621	55,589,393	26,475,502	92,040

settlement risk

The Group faces settlement risk due to the fact that few financial transactions are settled simultaneously or on a same day basis. Consequently, the Group could suffer a loss if the counter-party fails to deliver on settlement date.

The Group controls the deals performed on a recorded line by the dealer and further ensures that the receipt of the deal and the confirmation received from the counter-party are reconciled and matched. This ensures that any settlement risk is identified immediately and that real-time action is taken to rectify any problematic situation.

4.3 liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its obligations as they become due because of an inability to liquidate assets or obtain adequate funding ("funding liquidity risk") or that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions ("market liquidity risk").

Liquidity risk arises in the general funding of the Group's activities and the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates as well as the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Group raises funds from deposits, other financial institutions (by means of loans and money market placements), by issuing promissory notes and similar paper and through increases in share capital and plough back of profits.

management of liquidity risk

Liquidity risk is managed by maintaining significant levels of liquid funds, and identifying and monitoring changes in funding required to meet business goals driven by management.

The Group's Assets-Liabilities Committee ("ALCO") (a Board Committee) is responsible for establishing appropriate asset and liability management policies, monitoring their application and reviewing financial information on the basis of which investment and funding decisions are taken. The daily application of the asset and liability management policies rests with the Treasury Unit of the Group.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Treasury Unit receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through short-term loans from Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

When an operating subsidiary is subject to a liquidity limit imposed by its local regulator, the subsidiary is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Treasury. Treasury monitors compliance of all operating subsidiaries with local regulatory limits on a daily basis.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Group and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from Banks and Customers. For this purpose net liquid assets are computed by reference to Banking Rule 5, "Liquidity Requirements of Credit Institutions Authorised under the Banking Act 1994" issued by the Malta Financial Services Authority. Details of the reported Group liquidity ratio at the reporting date and during the reporting period were as follows:

	2013	2012
At 31 December	37.7%	44.9%
Average for the year	51.7%	49.9%
Maximum for the year	67.9%	73.0%
Minimum for the year	36.0%	35.7%

4 *financial risk review - continued*

residual contractual maturities of financial assets and liabilities

Group – 31 December 2013

	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta, Treasury Bills and cash	69,707,225	69,910,222	69,910,222	-	-	-	-	-
Trading assets	272,831,977	272,831,977	272,831,977	-	-	-	-	-
Derivative assets held for risk management	828,234	828,234	463,854	124,318	113,684	126,378	-	-
Financial assets designated at fair value through profit or loss	17,700,000	20,324,684	-	-	129,557	259,114	518,227	19,417,786
Loans and advances to banks	337,975,471	346,740,900	239,194,082	26,406,441	17,380,006	17,941,275	6,398,530	39,420,566
Loans and advances to customers	417,469,537	465,515,150	55,499,058	228,673,304	40,759,475	20,330,832	6,022,239	114,230,242
Derivative liabilities held for risk management	506,477	506,477	216,880	55,024	110,007	124,566	-	-
Amounts owed to banks	603,452,860	609,003,653	312,720,925	76,606,658	87,729,994	121,780,926	2,399,480	7,765,670
Amounts owed to customers	431,686,766	439,397,997	286,750,729	40,349,470	39,190,062	39,077,469	25,974,847	8,055,420
Debt securities in issue	35,498,006	35,893,004	4,499,173	16,401,010	6,818,278	8,174,543	-	-

Group – 31 December 2012

	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta, Treasury Bills and cash	20,831,547	20,884,688	20,884,688	-	-	-	-	-
Trading assets	245,061,077	245,061,077	245,061,077	-	-	-	-	-
Derivative assets held for risk management	893,552	893,552	435,187	96,302	243,919	118,144	-	-
Financial assets designated at fair value through profit or loss	55,589,393	55,589,393	55,589,393	-	-	-	-	-
Loans and advances to banks	396,320,420	403,198,421	250,738,523	82,020,473	43,515,719	1,868,848	5,149,531	19,905,327
Loans and advances to customers	329,330,290	334,305,861	46,705,287	211,898,386	18,676,539	21,520,872	4,563,335	30,941,442
Derivative liabilities held for risk management	(791,622)	(791,621)	(234,864)	(222,776)	(217,751)	(116,230)	-	-
Amounts owed to banks	(431,841,922)	(434,543,466)	(242,120,702)	(87,574,125)	(51,278,009)	(40,175,222)	(3,571,377)	(9,824,031)
Amounts owed to customers	(454,857,480)	(462,153,316)	(268,298,882)	(67,374,664)	(44,376,486)	(48,941,799)	(17,275,949)	(15,885,536)
Debt securities in issue	(51,956,119)	(53,669,430)	(7,827,220)	-	(1,762,290)	(44,079,920)	-	-
Subordinated debt	(40,122,813)	(57,761,482)	-	-	(2,651,383)	(914,737)	(1,829,474)	(52,365,888)

4 financial risk review - continued

Bank – 31 December 2013

	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta, Treasury Bills and cash	69,680,966	69,883,964	69,883,964	-	-	-	-	-
Derivative assets held for risk management	883,480	883,480	519,100	124,318	113,684	126,378	-	-
Financial assets designated at fair value through profit or loss	17,700,000	20,324,684	-	-	129,557	259,114	518,227	19,417,786
Investments held-to-maturity	6,783,621	6,783,621	-	-	-	-	-	6,783,621
Loans and advances to banks	328,578,318	337,343,749	229,172,633	26,826,916	17,492,887	17,931,024	6,395,987	39,524,302
Loans and advances to customers	593,801,221	641,846,834	62,852,009	369,726,232	29,499,627	54,320,525	6,033,077	119,415,364
Derivative liabilities held for risk management	506,477	506,477	216,880	55,024	110,007	124,566	-	-
Amounts owed to banks	593,551,588	599,045,711	312,720,925	77,047,855	87,854,005	119,023,446	2,399,480	-
Amounts owed to customers	414,846,277	422,519,642	275,814,057	36,400,096	37,253,452	39,021,770	25,974,847	8,055,420

Bank – 31 December 2012

	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months & 1 year	Between 1 & 2 years	More than 2 years
	USD	USD	USD	USD	USD	USD	USD	USD
Balances with the Central Bank of Malta, Treasury Bills and cash	20,818,657	20,871,798	20,871,798	-	-	-	-	-
Derivative assets held for risk management	939,512	939,512	481,147	96,302	243,919	118,144	-	-
Financial assets designated at fair value through profit or loss	55,589,393	55,589,393	55,589,393	-	-	-	-	-
Loans and advances to banks	392,215,931	399,093,930	245,551,148	81,916,527	44,460,695	1,988,837	5,269,695	19,907,028
Loans and advances to customers	476,424,777	481,400,345	59,064,244	329,437,504	34,405,209	19,668,846	2,837,019	35,987,52
Derivative liabilities held for risk management	(791,622)	(791,622)	(234,865)	(222,776)	(217,751)	(116,230)	-	-
Amounts owed to banks	(412,808,494)	(415,510,038)	(242,268,759)	(87,646,705)	(43,231,563)	(37,659,173)	(3,692,807)	(1,011,031)
Amounts owed to customers	(427,387,411)	(434,683,246)	(244,907,802)	(64,943,345)	(43,137,044)	(48,728,137)	(17,081,382)	(15,885,536)
Debt securities in issue	(43,141,189)	(44,854,500)	-	-	(774,580)	(44,079,920)	-	-
Subordinated debt	(40,122,813)	(57,761,482)	-	-	(2,651,383)	(914,737)	(1,829,474)	(52,365,888)

The above table shows the undiscounted cash flows on the Group's and Bank's financial assets and liabilities on the basis of their earliest possible contractual maturity. The expected cash flows on these instruments vary significantly from this analysis.

As at 31 December 2013, the Group and Bank had outstanding guarantees incurred on behalf of third parties amounting to USD25,658,655 and USD61,549,236 (2012: USD73,271,995 and USD82,152,480) respectively which are callable upon the request of the third party.

4.4 market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk, interest rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

foreign exchange risk

Foreign exchange risk is attached to those monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the Group. Transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. Currency risk is mitigated by a closely monitored currency position policy and is managed through matching within the foreign currency portfolio. Mismatches, which are allowed temporarily and for small amounts, are continuously monitored and regularised immediately. The Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies spot or forward when considered appropriate.

Group - 31 December 2013

All amounts are expressed in USD	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	6,529	69,690,852	4,666	5,178	69,707,225
Trading assets	224,985,570	40,819,702	7,026,705	-	272,831,977
Derivative assets held for risk management	18,485	564,367	182,337	63,045	828,234
Financial assets designated at fair value through profit or loss	17,700,000	-	-	-	17,700,000
Investments held-to-maturity	6,783,621	-	-	-	6,783,621
Loans and advances to banks	123,659,202	200,755,184	6,004,225	7,556,860	337,975,471
Loans and advances to customers	334,452,477	77,839,861	4,767,743	409,456	417,469,537
Other assets	18,337,100	2,792,305	42,042	406,198	21,577,645
Derivative liabilities held for risk management	(18,657)	(284,993)	(182,534)	(20,293)	(506,477)
Amounts owed to banks	(385,074,232)	(218,031,774)	(311,625)	(35,229)	(603,452,860)
Amounts owed to customers	(220,012,740)	(190,767,144)	(18,340,267)	(2,566,615)	(431,686,766)
Debt securities in issue	(21,924,732)	(13,573,274)	-	-	(35,498,006)
Other liabilities	(10,736,667)	(4,446,965)	(196,994)	(485,926)	(15,866,552)
Net on balance sheet financial position	88,175,959	(34,641,880)	(1,003,703)	5,332,675	57,863,051
Notional amount of derivative instruments held for risk management	-	28,190,423	(13,828)	(4,595,058)	

4 financial risk review - continued

Group - 31 December 2012

All amounts are expressed in USD

	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	2,671	20,824,281	3,745	850	20,831,547
Trading assets	211,303,034	17,701,530	16,056,513	-	245,061,077
Derivative assets held for risk management	18,486	734,048	31,552	109,466	893,552
Financial assets designated at fair value through profit or loss	42,402,000	13,187,393	-	-	55,589,393
Loans and advances to banks	141,665,379	235,694,771	2,441,302	16,518,968	396,320,420
Loans and advances to customers	259,685,377	64,245,845	4,405,803	993,265	329,330,290
Other assets	14,789,175	2,629,138	51,315	883,247	18,352,875
Derivative liabilities held for risk management	(18,657)	(694,651)	(33,244)	(45,070)	(791,622)
Amounts owed to banks	(237,853,738)	(192,793,703)	(895,119)	(299,362)	(431,841,922)
Amounts owed to customers	(224,395,735)	(201,814,330)	(22,272,507)	(6,374,908)	(454,857,480)
Debt securities in issue	(19,719,827)	(32,236,292)	-	-	(51,956,119)
Subordinated debt	(9,027,600)	(31,095,213)	-	-	(40,122,813)
Other liabilities	(14,319,504)	(5,209,569)	(292,083)	(376,799)	(20,197,955)
Net on balance sheet financial position	164,531,061	(108,826,752)	(502,723)	11,409,657	66,611,243
Notional amount of derivative instruments held for risk management	-	104,111,222	105,095	(11,381,363)	

Bank - 31 December 2013

All amounts are expressed in USD

	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	-	69,680,966	-	-	69,680,966
Derivative assets held for risk management	73,731	564,367	182,337	63,045	883,480
Financial assets designated at fair value through profit or loss	17,700,000	-	-	-	17,700,000
Investments held-to-maturity	6,783,621	-	-	-	6,783,621
Loans and advances to banks	114,645,006	201,170,528	6,004,034	6,758,750	328,578,318
Loans and advances to customers	478,957,671	102,458,904	11,975,189	409,457	593,801,221
Other assets	10,681,537	2,502,754	19,377	176,918	13,380,586
Derivative liabilities held for risk management	(18,657)	(284,993)	(182,534)	(20,293)	(506,477)
Amounts owed to banks	(377,365,232)	(215,715,491)	(435,636)	(35,229)	(593,551,588)
Amounts owed to customers	(203,172,251)	(190,767,144)	(18,340,267)	(2,566,615)	(414,846,277)
Other liabilities	(2,412,475)	(2,728,806)	(196,994)	(8,095)	(5,346,370)
Net on balance sheet financial Position	45,872,951	(33,118,915)	(974,494)	4,777,938	16,557,480
Notional amount of derivative instruments held for risk management	-	28,190,423	(13,828)	(4,595,058)	

4 financial risk review - continued

Bank - 31 December 2012

All amounts are expressed in USD	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	-	20,818,657	-	-	20,818,657
Derivative assets held for risk management	64,446	734,048	31,552	109,466	939,512
Financial assets designated at fair value through profit or loss	42,402,000	13,187,393	-	-	55,589,393
Loans and advances to banks	136,401,608	236,645,293	2,804,474	16,364,556	392,215,931
Loans and advances to customers	383,291,329	72,003,787	20,136,396	993,265	476,424,777
Other assets	6,652,695	2,084,328	825	142,554	8,880,402
Derivative liabilities held for risk management	(18,657)	(694,651)	(33,244)	(45,070)	(791,622)
Amounts owed to banks	(220,040,738)	(191,133,509)	(1,334,885)	(299,362)	(412,808,494)
Amounts owed to customers	(196,925,665)	(201,814,330)	(22,272,507)	(6,374,909)	(427,387,411)
Debt securities in issue	(17,737,523)	(25,403,666)	-	-	(43,141,189)
Subordinated debt	(9,027,600)	(31,095,213)	-	-	(40,122,813)
Other liabilities	(4,342,177)	(3,335,169)	(292,083)	(31,297)	(8,000,726)
Net on balance sheet financial Position	120,719,718	(108,003,032)	(959,472)	10,859,203	22,616,417
Notional amount of derivative instruments held for risk management	-	104,111,222	105,095	(11,381,363)	

The following exchange rates applied during the year:

	Average rate		Reporting date mid-spot rate	
USD	2013	2012	2013	2012
1 EUR	1.3276	1.2850	1.3787	1.3187
1 GBP	1.5638	1.5844	1.6480	1.6137

A 7 percent strengthening of the following currencies against the US Dollar at 31 December would have increased/(decreased) equity and/or profit or loss by amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group		Bank	
	Equity USD	Profit or loss USD	Equity USD	Profit or loss USD
31 December 2013				
EUR	(451,602)	(451,602)	(344,994)	(344,994)
GBP	(71,227)	(71,227)	(69,183)	(69,183)
Other currencies	51,633	51,633	12,802	12,802
31 December 2012				
EUR	(330,087)	(330,087)	(272,427)	(272,427)
GBP	(27,834)	(27,834)	(59,806)	(59,806)
Other currencies	1,981	1,981	(36,551)	(36,551)

A 7 percent weakening of the above currencies against the US Dollar at 31 December would have equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

4 *financial risk review - continued*

interest rate risk

Interest rate risk refers to the exposure of the Bank's and Group's financial instruments to movements in interest rates. The risk impacts the earnings of the Group as a result of changes in the economic value of its assets, liabilities and off-balance sheet instruments. The Group's operations are subject to interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or at different amounts.

Accordingly, interest rate risk is managed through the matching of the interest resetting dates on assets and liabilities.

Group - 31 December 2013

	Less than 1 month	Between 1& 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta, Treasury Bills and cash	21,597,736	13,773,646	34,296,064	-	-	39,779	69,707,225
Trading assets	81,896,627	101,918,790	30,161,127	21,981,441	36,873,992	-	272,831,977
Derivative assets held for risk management	-	-	-	-	-	828,234	828,234
Financial assets designated at fair value through profit or loss	7,800,000	9,900,000	-	-	-	-	17,700,000
Investments held-to-maturity	-	-	-	-	6,783,621	-	6,783,621
Loans and advances to banks	238,635,379	21,673,004	43,821,620	16,556,615	4,263,897	13,024,956	337,975,471
Loans and advances to customers	299,928,884	24,408,499	30,027,749	2,726,300	48,231,968	12,146,137	417,469,537
Other assets	-	-	-	-	-	112,470,738	112,470,738
Total assets	649,858,626	171,673,939	138,306,560	41,264,356	96,153,478	138,509,844	1,235,766,803
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	506,477	506,477
Amounts owed to banks	301,206,982	181,396,922	77,136,360	6,578,540	2,225,821	34,908,235	603,452,860
Amounts owed to customers	284,734,482	32,432,576	34,726,201	36,907,482	29,818,326	13,067,699	431,686,766
Debt securities in issue	12,477,162	16,202,566	6,818,278	-	-	-	35,498,006
Other liabilities	-	-	-	-	-	15,866,552	15,866,552
Equity	-	-	-	-	-	148,756,142	148,756,142
Total liabilities and equity	598,418,626	230,032,064	118,680,839	43,486,022	32,044,147	213,105,105	1,235,766,803

	Less than 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD
Assets	821,532,565	138,306,560	41,264,356	96,153,478	138,509,844	1,235,766,803
Liabilities	(828,450,690)	(118,680,839)	(43,486,022)	(32,044,147)	(213,105,105)	(1,235,766,803)
Interest sensitivity gap	(6,918,125)	19,625,721	(2,221,666)	64,109,331	(74,595,261)	-
Cumulative gap	(6,918,125)	12,707,596	10,485,930	74,595,261	-	-
change in interest rate for the period						
100bps increase	(51,886)	98,129	(1,851)			
100bps decrease	51,886	(98,129)	1,851			

4 financial risk review - continued

Group - 31 December 2012

	Less than 1 month	Between 1& 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta, Treasury Bills and cash	7,695,604	6,551,567	6,555,649	-	-	28,727	20,831,547
Trading assets	105,217,072	48,879,895	38,873,073	34,657,144	16,886,988	546,905	245,061,077
Derivative assets held for risk management	-	-	-	-	-	893,552	893,552
Financial assets designated at fair value through profit or loss	13,312,000	38,027,393	4,250,000	-	-	-	55,589,393
Loans and advances to banks	229,306,545	76,120,686	59,266,048	1,809,995	157,476	29,659,670	396,320,420
Loans and advances to customers	300,217,825	-	270,425	456,295	18,728,036	9,657,709	329,330,290
Other assets	-	-	-	-	-	82,381,896	82,381,896
Total assets	655,749,046	169,579,541	109,215,195	36,923,434	35,772,500	123,168,459	1,130,408,175
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	791,622	791,622
Amounts owed to banks	221,393,129	87,264,092	39,716,614	35,100,993	1,011,031	47,356,063	431,841,922
Amounts owed to customers	292,082,579	18,484,654	40,713,573	69,907,114	29,114,364	4,555,196	454,857,480
Debt securities in issue	7,827,220	-	987,710	43,141,189	-	-	51,956,119
Subordinated debt	1,714,286	-	-	-	38,408,527	-	40,122,813
Other liabilities	-	-	-	-	-	20,197,953	20,197,953
Equity	-	-	-	-	-	130,640,266	130,640,266
Total liabilities and equity	523,017,214	105,748,746	81,417,897	148,149,296	68,533,922	203,541,100	1,130,408,175

	Less than 3months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total interest
	USD	USD	USD	USD	USD	USD
Assets	825,328,587	109,215,195	36,923,434	35,772,500	123,168,459	1,130,408,175
Liabilities	(628,765,960)	(81,417,897)	(148,149,296)	(68,533,922)	(203,541,100)	(1,130,408,175)
Interest sensitivity gap	196,562,627	27,797,298	(111,225,862)	(32,761,422)	(80,372,641)	-
Cumulative gap	196,562,627	224,359,925	113,134,063	80,372,641	-	-
change in interest rate for the period						
100bps increase	1,474,220	138,986	(92,688)			
100bps decrease	(1,474,220)	(138,986)	92,688			

4 financial risk review - continued

Bank - 31 December 2013

	Less than 1 month	Between 1& 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta, Treasury Bills and cash	21,597,736	13,773,646	34,296,064	-	-	13,520	69,680,966
Derivative assets held for risk management	-	-	-	-	-	883,480	883,480
Financial assets designated at fair value through profit or loss	7,800,000	9,900,000	-	-	-	-	17,700,000
Investments held-to-maturity	-	-	-	-	6,783,621	-	6,783,621
Loans and advances to banks	228,673,016	21,673,004	43,821,620	16,556,615	4,263,897	13,590,166	328,578,318
Loans and advances to customers	512,570,783	-	18,058,833	2,382,062	48,231,968	12,557,575	593,801,221
Other assets	-	-	-	-	-	129,688,221	129,688,221
Total assets	770,641,535	45,346,650	96,176,517	18,938,677	59,279,486	156,732,962	1,147,115,827
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	506,477	506,477
Amounts owed to banks	301,206,982	170,930,443	77,136,360	6,578,540	2,225,821	35,473,442	593,551,588
Amounts owed to customers	267,893,993	32,432,576	34,726,201	36,907,482	29,818,326	13,067,699	414,846,277
Other liabilities	-	-	-	-	-	5,407,967	5,407,967
Equity	-	-	-	-	-	132,803,518	132,803,518
Total liabilities and equity	569,100,975	203,363,019	111,862,561	43,486,022	32,044,147	187,259,103	1,147,115,827

	Less than 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD
Assets	815,988,185	96,176,517	18,938,677	59,279,486	156,732,962	1,147,115,827
Liabilities	(772,463,994)	(111,862,561)	(43,486,022)	(32,044,147)	(187,259,103)	(1,147,115,827)
Interest sensitivity gap	43,524,191	(15,686,044)	(24,547,345)	27,235,339	(30,526,141)	-
Cumulative gap	43,524,191	27,838,147	3,290,802	30,526,141	-	-
change in interest rate for the period						
100bps increase	326,431	(78,430)	(20,456)			
100bps decrease	(326,431)	78,430	20,456			

4 *financial risk review - continued*

Bank - 31 December 2012

	Less than 1 month USD	Between 1& 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
Assets							
Balances with the Central Bank of Malta, Treasury Bills and cash	7,695,604	6,551,567	6,555,649	-	-	15,837	20,818,657
Derivative assets held for risk management	-	-	-	-	-	939,512	939,512
Financial assets designated at fair value through profit or loss	13,312,000	38,027,393	4,250,000	-	-	-	55,589,393
Loans and advances to banks	223,967,046	75,938,642	59,266,048	1,809,995	157,476	31,076,724	392,215,931
Loans and advances to customers	447,388,561	-	270,425	456,295	18,728,036	9,581,460	476,424,777
Other assets	-	-	-	-	-	97,001,656	97,001,656
Total assets	692,363,211	120,517,602	70,342,122	2,266,290	18,885,512	138,615,189	1,042,989,926
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	791,622	791,622
Amounts owed to banks	212,393,129	78,451,092	39,716,614	32,463,515	1,011,031	48,773,113	412,808,494
Amounts owed to customers	287,240,904	18,484,654	40,836,214	47,407,114	29,114,364	4,304,161	427,387,411
Debt securities in issue	-	-	-	43,141,189	-	-	43,141,189
Subordinated debt	1,714,286	-	-	-	38,408,527	-	40,122,813
Other liabilities	-	-	-	-	-	8,000,725	8,000,725
Equity	-	-	-	-	-	110,737,672	110,737,672
Total liabilities and equity	501,348,319	96,935,746	80,552,828	123,011,818	68,533,922	172,607,293	1,042,989,926

	Less than 3 month USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non-Interest bearing USD	Total USD
Assets	812,880,813	70,342,122	2,266,290	18,885,512	138,615,189	1,042,989,926
Liabilities	(598,284,065)	(80,552,828)	(123,011,818)	(68,533,922)	(172,607,293)	(1,042,989,926)
Interest sensitivity gap	214,596,748	(10,210,706)	(120,745,528)	(49,648,410)	(33,992,104)	-
Cumulative gap	214,596,748	204,386,042	83,640,514	33,992,104	-	-
change in interest rate for the period						
100bps increase	1,609,476	(51,054)	(100,621)			
100bps decrease	(1,609,476)	51,054	100,621			

cash flow sensitivity analysis for repricing instruments

An increase of 100 basis points at the reporting date would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Group		Bank	
	Equity	Profit or loss	Equity	Profit or loss
	USD	USD	USD	USD
31 December 2013				
Repricing instruments	44,391	44,391	227,545	227,545
31 December 2012				
Repricing instruments	1,520,518	1,520,518	1,457,801	1,457,801

A decrease of 100 basis points at the reporting date would have equal but opposite effect on the above instruments to the amounts shown above, on the basis that all other variables remain constant.

other price risk

	Group		Bank	
	2013	2012	2013	2012
Non-derivative financial assets at fair value	USD	USD	USD	USD
Bonds	-	13,187,393	-	13,187,393
Credit linked notes	17,700,000	42,402,000	17,700,000	42,402,000
	17,700,000	55,589,393	17,700,000	55,589,393

In the case of forfaiting assets, price risk is considered to be a less relevant variable. Notwithstanding this, the Group endeavours to mitigate any price risk by building a diversified forfaiting portfolio with an ultimately different geographical exposure.

cash flow sensitivity analysis for market risk

An increase in the price of bonds and credit linked notes at the reporting date would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group		Bank	
	2013	2012	2013	2012
	USD	USD	USD	USD
10% increase in price for Bonds	-	1,318,739	-	1,318,739
10% increase in price for Credit Linked Notes	1,770,000	4,240,200	1,770,000	4,240,200

A decrease in the price of bonds and credit linked notes at the reporting date would have had an equal but opposite effect to that shown above, on the basis that all other variables remain constant.

4.5 operational risk

Operational risk arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses.

Operational risk events can be broadly categorised as (a) losses arising from internal and external frauds, as well as human errors and omissions; (b) losses arising from a defective transaction or a claim being made; (c) losses arising from loss of key personnel; (d) losses arising from breaches of fiduciary duty by employees, misuse of confidential customer information, money laundering activities and other improper conducts by employees; (e) losses arising from technological failures, telecommunication problems and utility outages; and (f) losses arising from insurance arrangements not adequately addressing the risk these are intended to cover. Such breakdowns can lead to financial losses through error, fraud, or

4 financial risk review - continued

failure to perform in a timely manner or cause the interests of the Group to be compromised in some other way. Other aspects of operational risk include major failure of information technology systems or events such as major fires or other disasters.

The Group has invested heavily in information technology, disaster recovery and contingency systems to assist its management to control this risk.

4.6 capital management

regulatory capital

FIMBank p.l.c. is a credit institution registered and authorised to conduct banking and other financial services by the Malta Financial Services Authority ("MFSA"). Under local regulations, the MFSA regulates the Group on both "solo" and "consolidated" basis, with the Banking Act (1994) and Banking Rules forming the basis of the Group's capital requirements.

In implementing current capital requirements, the MFSA requires the Group to maintain a minimum prescribed ratio of total capital to total risk-weighted on- and off- balance sheet assets.

The Group adopted the standardised approach to allocate capital against credit risk under Banking Rule (BR/04) "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994", which rule also introduces capital requirements for market risk and operational risk calculated under the basic indicator approach.

The second pillar of Basel II (Supervisory Review and Evaluation Process) involves both banks and regulators taking a view on whether a bank should hold additional capital against risks not covered in Pillar 1. Part of the Pillar 2 process is the Internal Capital Adequacy Assessment Process ("ICAAP") which is the bank's self assessment of risks not captured by Pillar 1.

Schedule V to this Annual Report and Financial Statements includes additional regulatory disclosures (Pillar 3) in terms of Banking Rule BR/07 "Publication of annual report and audited financial statements of credit institutions authorised under the Banking Act, 1994"

The Group's capital base is divided in two categories, as defined in Banking Rule (BR/03) "Own Funds of Credit Institutions Authorised under the Banking Act, 1994":

a. "Original own funds" comprise share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill and other intangible assets, 50% of the regulated associated companies, the depositor protection scheme reserve and recommended dividends are deducted in arriving at original own funds calculations.

b. "Additional own funds" comprise qualifying subordinated loan capital and collective impairment allowance. Additional own funds also include reserves arising from the revaluation of properties. The remaining 50% of the regulated associated companies are deducted in arriving at additional own funds calculations.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

4 financial risk review - continued

capital adequacy

Group

	Exposure Amount 2013 USD	Notional Risk Weight 2013 USD
RISK WEIGHTED EXPOSURE		
Type of Exposure:		
Sovereign	143,930,767	65,449,484
Public sector entities	44,273,225	27,728,347
Institutions (Banks)	627,085,719	259,144,541
Corporates	570,336,340	504,634,554
Retail	1,954,684	861,186
Retail secured by real estate	3,754,087	3,255,175
Collective investment schemes	7,248,287	-
Other items	92,088,750	92,048,971
	1,490,671,859	953,122,258
Operational risk		72,462,788
Foreign exchange risk		7,522,419
Total risk weighted exposure		1,033,107,465
OWN FUNDS		
Original own funds:		
Capital and reserves		152,971,552
Loss for the year		(4,215,409)
		148,756,142
Intangible assets		(1,342,722)
Deduction for investment in regulated entities		(13,624,265)
Market value of assets pledged in favour of the Depositor Compensation Scheme (refer to notes 22 and 31)		(1,455,699)
Total original own funds		132,333,456
Additional own funds:		
Collective impairments		6,283,017
Deduction for investment in regulated entities		(6,283,017)
Total additional own funds		-
Total own funds		132,333,456
Capital adequacy ratio		12.81%
Regulatory minimum		8.00%

4 *financial risk review - continued*

Bank

	Exposure Amount 2013 USD	Notional Risk Weight 2013 USD
RISK WEIGHTED EXPOSURE		
Type of Exposure:		
Sovereign	105,610,238	27,128,955
Public sector entities	44,273,225	27,728,347
Institutions (Banks)	419,846,796	161,080,200
Corporates	717,827,576	581,827,645
Retail	1,954,684	861,186
Retail secured by real estate	3,754,087	3,255,175
Collective investment schemes	7,248,287	-
Other items	123,856,284	123,842,764
	1,424,371,177	925,724,272
Operational risk		43,796,829
Foreign exchange risk		3,647,378
Total risk weighted exposure		973,168,479
OWN FUNDS		
Original own funds:		
Capital and reserves		135,634,287
Loss for the year		(2,830,769)
		132,803,518
Intangible assets		(715,513)
Deduction for investment in regulated entities		(3,006,713)
Market value of assets pledged in favour of the Depositor Compensation Scheme (refer to notes 22 and 31)		(1,455,699)
Total original own funds		127,625,593
Additional own funds:		
Collective impairments		6,074,655
Deduction for investment in regulated entities		(3,006,713)
Total additional own funds		3,067,942
Total own funds		130,693,535
Capital adequacy ratio		13.43%
Regulatory minimum		8.00%

The capital adequacy ratio of the Group and the Bank for the year ended 31 December 2012 stood at 16.36% and 16.94% respectively.

5 fair values of financial instruments

The Group's accounting policy on fair value measurements is discussed in accounting policy 3.10.6.

5.1 valuation of financial instruments

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities and exchange traded derivatives and simple over the counter derivatives like currency rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives and certain loans and securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

The Group has an established control framework with respect to the measurement of fair values. This framework includes reports to the Group's Executive Management who has overall responsibility for verifying the results of trading in financial instruments and all significant fair value measurements. Market risk and related exposure to fair value movement is also a key function of the Group's Asset-Liability Committee and all valuations of financial instruments are reported to the Committee for review and approval.

5 fair values of financial instruments - continued

5.2 financial instruments measured at fair value – fair value hierarchy

The table below analyses financial instruments measured at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Group - 31 December 2013

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Trading assets	19	-	-	272,831,977	272,831,977
Derivative assets held for risk management	20	-	828,234	-	828,234
Financial assets designated at fair value through profit or loss	21	-	-	17,700,000	17,700,000
Investments available-for-sale	24	51,726	24,325,921	2,098,557	26,476,204
		51,726	25,154,155	292,630,534	317,836,415
Derivative liabilities held for risk management	20	-	506,477	-	506,477
		-	506,477	-	506,477

Group - 31 December 2012

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Trading assets	19	-	-	245,061,077	245,061,077
Derivative assets held for risk management	20	-	893,552	-	893,552
Financial assets designated at fair value through profit or loss	21	13,187,393	-	42,402,000	55,589,393
Investments available-for-sale	24	51,726	-	41,016	92,742
		13,239,119	893,552	287,504,093	301,636,764
Derivative liabilities held for risk management	20	-	791,622	-	791,622
		-	791,622	-	791,622

5 *fair values of financial instruments - continued*

Bank - 31 December 2013

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Derivative assets held for risk management	20	-	883,480	-	883,480
Financial assets designated at fair value through profit or loss	21	-	-	17,700,000	17,700,000
Investments available-for-sale	24	51,726	24,325,920	2,097,856	26,475,502
		51,726	25,209,400	19,797,856	45,058,982
Derivative liabilities held for risk management	20	-	506,477	-	506,477
		-	506,477	-	506,477

Bank - 31 December 2012

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Derivative assets held for risk management	20	-	939,512	-	939,512
Financial assets designated at fair value through profit or loss	21	13,187,393	-	42,402,000	55,589,393
Investments available-for-sale	24	51,726	-	40,314	92,040
		13,239,119	939,512	42,442,314	56,620,945
Derivative liabilities held for risk management	20	-	791,622	-	791,622
		-	791,622	-	791,622

5 fair values of financial instruments - continued

5.3 level 3 fair value measurements

5.3.1 *reconciliation*

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

Group - 2013

	Trading assets	Financial assets designated at fair value through profit or loss	Investments available-for-sale	Total
	USD	USD	USD	USD
Balance at 1 January 2013	245,061,077	42,402,000	41,016	287,504,093
Total gains and losses in profit or loss	(5,507,341)	(612,000)	-	(6,119,341)
Total gains and losses in other comprehensive income	-	-	69,207	69,207
Purchases	395,499,333	-	1,988,334	397,487,667
Settlements	(362,221,092)	(24,090,000)	-	(386,311,092)
Balance at 31 December 2013	272,831,977	17,700,000	2,098,557	292,630,534

Total gains or losses for the year in the above table are presented in the statement of profit or loss and other comprehensive income as follows:

	Trading assets	Financial assets designated at fair value through profit or loss	Investments available-for-sale	Total
	USD	USD	USD	USD
Total gains and losses in profit or loss				
- Net trading results	(5,507,341)	-	-	(5,507,341)
- Net gain from other financial instruments carried at fair value	-	(612,000)	-	(612,000)
Total gains and losses in other comprehensive income				
- Net change in fair value of available-for-sale financial assets	-	-	69,207	69,207

5 *fair values of financial instruments - continued*

Group - 2012

	Trading assets USD	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Balance at 1 January 2012	230,286,337	41,320,260	41,015	271,647,612
Total gains and losses in profit or loss	1,298,694	1,081,740	-	2,380,434
Purchases	417,256,238	-	-	417,256,238
Settlements	(403,780,192)	-	-	(403,780,192)
Balance at 31 December 2012	245,061,077	42,402,000	41,015	287,504,092

Total gains or losses for the year in the above table are presented in the statement of profit or loss and other comprehensive income as follows:

	Trading assets USD	Financial assets designated at fair value through profit or loss USD	Total USD
Total gains and losses in profit or loss			
- Net trading results	1,298,694	-	1,298,694
- Net gain from other financial instruments carried at fair value	-	1,081,740	1,081,740

Bank - 2013

	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Balance at 1 January 2013	42,402,000	40,314	42,442,314
Total gains and losses in profit or loss	(612,000)	-	(612,000)
Total gains and losses in other comprehensive income	-	69,207	69,207
Purchases	-	1,988,335	1,988,335
Settlements	(24,090,000)	-	(24,090,000)
Balance at 31 December 2013	17,700,000	2,097,856	19,797,856

5 fair values of financial instruments - continued

Total gains or losses for the year in the above table are presented in the statement of profit or loss and other comprehensive income as follows:

	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Total gains and losses in profit or loss			
- Net gain from other financial instruments carried at fair value	(612,000)	-	(612,000)
Total gains and losses in other comprehensive income			
- Net change in fair value of available-for-sale financial assets	-	69,207	69,207

Bank - 2012

	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Balance at 1 January 2012	41,320,260	40,314	41,360,574
Total gains and losses in profit or loss	1,081,740	-	1,081,740
Balance at 31 December 2012	42,402,000	40,314	42,442,314

Total gains or losses for the year in the above table are presented in the statement of profit or loss and other comprehensive income as follows:

	Financial assets designated at fair value through profit or loss USD	Total USD
Total gains and losses in profit or loss		
- Net gain from other financial instruments carried at fair value	1,081,740	1,081,740

5.3.2 unobservable inputs used in measuring fair value

The below sets out information about significant unobservable inputs used at 31 December 2013 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

trading assets

The trading assets portfolio represent Forfaiting Assets, that is the discounting of receivables generated from an export contract on a without recourse basis. The assets would be evidenced by a number of different debt instruments including Bills of Exchange, Promissory Notes, Letters of Credit and trade or project related Syndicated and Bi-lateral Loan (Financing) Agreements.

The Group establishes fair value of its trading assets using a valuation technique based on the discounted expected future principal and interest cash flows. The discount rate is an estimate based on current expected credit margin spreads and interest rates at the reporting date. Inputs to valuation technique reasonably represent market expectation and measures of risk-return factors inherent in the financial instrument.

The Group uses the LIBOR yield curve as of each reporting date plus an adequate credit margin spread to discount the trading assets held. At 31 December 2013, the interest rates used range between 1.28% to 10.96% (2012: 0.44% to 35.59%). The effect of an estimated general increase of one percentage point in interest rate on trading assets at 31 December 2013 would reduce the Group's profit before tax by approximately USD 668,031 (2012: USD 288,035).

financial assets designated at fair value through profit or loss

The Financial assets designated at fair value through profit or loss ("FVTPL") consist of credit linked notes, whereby the Group is funding the risk of default with respect to specified borrowers.

The FVTPL portfolio is fair valued using a model based on the current credit worthiness of the counter parties by reference to specialised dealer price quotations. Periodical changes in dealer quotations are compared to changes in quoted prices for instruments with similar characteristics issued by the borrowers.

All credit linked notes have a floating-interest rate characteristic and the impact of interest rates on the value of the instrument is therefore limited to the interest repricing period which generally occurs on a quarterly or half-yearly basis. The effect on profit or loss is disclosed in note 4.4 to these financial statements.

investments available-for-sale

Available-for-sale investments mainly represent holdings in an unlisted sub-fund of a collective investment scheme whose underlying investments would be classified as Level 3 assets. The sub-fund, independently run by a licensed investment manager, invests in sustainable energy plants with returns generated throughout the life of each plant.

The fair value is measured by the Group based on periodical net-asset-valuations prepared by the scheme's independent administrator. The sub-fund's assets are marked at fair market value. Assets are marked at observable traded prices where that is possible. Where there is no observable price, the assets are marked in accordance with best market practise. This may involve the use of models and forward projections. Inputs and assumptions used in these models may be subjective and could include a number of highly judgemental uncertainties including the projected valuations of the individual plants and the future potential income from each plant.

The effect of a ten percentage point increase in the net asset value of the sub-fund at 31 December 2013 would increase the Bank and Group equity by approximately USD205,754 (2012: Nil).

5 fair values of financial instruments - continued

5.4 financial instruments not measured at fair value

The following table sets out the fair value of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

Group - 31 December 2013

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	USD	USD	USD	USD	USD
ASSETS					
Balances with the Central Bank of Malta, Treasury Bills and cash	69,707,225	-	-	69,707,225	69,707,225
Loans and advances to banks	-	337,975,471	-	337,975,471	337,975,471
Loans and advances to customers	-	417,469,537	-	417,469,537	417,469,537
Investments held-to-maturity	-	6,783,621	-	6,783,621	6,783,621
LIABILITIES					
Amounts owed to banks	-	603,452,860	-	603,452,860	603,452,860
Amounts owed to customers	-	431,686,766	-	431,686,766	431,686,766
Debt securities in issue	-	35,498,006	-	35,498,006	35,498,006

Bank - 31 December 2013

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	USD	USD	USD	USD	USD
ASSETS					
Balances with the Central Bank of Malta, Treasury Bills and cash	69,680,966	-	-	69,680,966	69,680,966
Loans and advances to banks	-	328,578,318	-	328,578,318	328,578,318
Loans and advances to customers	-	593,801,221	-	593,801,221	593,801,221
Investments held-to-maturity	-	6,783,621	-	6,783,621	6,783,621
LIABILITIES					
Amounts owed to banks	-	593,551,588	-	593,551,588	593,551,588
Amounts owed to customers	-	414,846,277	-	414,846,277	414,846,277

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, and primary origination or secondary market spreads.

The fair value of amounts owed to banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

6 classification of financial assets and liabilities

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest).

Group - 31 December 2013

	Trading USD	Designated at fair value USD	Loans and receivables USD	Available-for-sale USD	Liabilities at amortised cost USD	Total carrying amount USD	Fair value USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	-	69,707,225	-	-	69,707,225	69,707,225
Trading assets	272,831,977	-	-	-	-	272,831,977	272,831,977
Derivative assets held for risk management	-	828,234	-	-	-	828,234	828,234
Financial assets designated at fair value through profit or loss	-	17,700,000	-	-	-	17,700,000	17,700,000
Loans and advances to banks	-	-	337,975,471	-	-	337,975,471	337,975,471
Loans and advances to customers	-	-	417,469,537	-	-	417,469,537	417,469,537
Investments available-for-sale	-	-	-	26,476,204	-	26,476,204	26,476,204
Investments held-to-maturity	-	-	6,783,621	-	-	6,783,621	6,783,621
Derivative liabilities held for risk management	-	506,477	-	-	-	506,477	506,477
Amounts owed to banks	-	-	-	-	603,452,860	603,452,860	603,452,860
Amounts owed to customers	-	-	-	-	431,686,766	431,686,766	431,686,766
Debt securities in issue	-	-	-	-	35,498,006	35,498,006	35,498,006

Group - 31 December 2012

	Trading USD	Designated at fair value USD	Loans and receivables USD	Available-for-sale USD	Liabilities at amortised cost USD	Total carrying amount USD	Fair value USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	-	20,831,547	-	-	20,831,547	20,831,547
Trading assets	245,061,077	-	-	-	-	245,061,077	245,061,077
Derivative assets held for risk management	-	893,552	-	-	-	893,552	893,552
Financial assets designated at fair value through profit or loss	-	55,589,393	-	-	-	55,589,393	55,589,393
Loans and advances to banks	-	-	396,320,420	-	-	396,320,420	396,320,420
Loans and advances to customers	-	-	329,330,290	-	-	329,330,290	329,330,290
Investments available-for-sale	-	-	-	92,742	-	92,742	92,742
Derivative liabilities held for risk management	-	791,622	-	-	-	791,622	791,622
Amounts owed to banks	-	-	-	-	431,841,922	431,841,922	431,841,922
Amounts owed to customers	-	-	-	-	454,857,480	454,857,480	454,857,480
Debt securities in issue	-	-	-	-	51,956,119	51,956,119	51,956,119
Subordinated debt	-	-	-	-	40,122,813	40,122,813	40,122,813

6 *classification of financial assets and liabilities - continued*

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest).

Bank - 31 December 2013	Trading USD	Designated at fair value USD	Loans and receivables USD	Available-for-sale USD	Liabilities at amortised cost USD	Total carrying amount USD	Fair value USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	-	69,680,966	-	-	69,680,966	69,680,966
Derivative assets held for risk management	-	883,480	-	-	-	883,480	883,480
Financial assets designated at fair value through profit or loss	-	17,700,000	-	-	-	17,700,000	17,700,000
Loans and advances to banks	-	-	328,578,318	-	-	328,578,318	328,578,318
Loans and advances to customers	-	-	593,801,221	-	-	593,801,221	593,801,221
Investments available-for-sale	-	-	-	26,475,502	-	26,475,502	26,475,502
Investments held-to-maturity	-	-	6,783,621	-	-	6,783,621	6,783,621
Derivative liabilities held for risk management	-	506,477	-	-	-	506,477	506,477
Amounts owed to banks	-	-	-	-	593,551,588	593,551,588	593,551,588
Amounts owed to customers	-	-	-	-	414,846,277	414,846,277	414,846,277

Bank - 31 December 2012	Trading USD	Designated at fair value USD	Loans and receivables USD	Available-for-sale USD	Liabilities at amortised cost USD	Total carrying amount USD	Fair value USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	-	20,818,657	-	-	20,818,657	20,818,657
Derivative assets held for risk management	-	939,512	-	-	-	939,512	939,512
Financial assets designated at fair value through profit or loss	-	55,589,393	-	-	-	55,589,393	55,589,393
Loans and advances to banks	-	-	392,215,931	-	-	392,215,931	392,215,931
Loans and advances to customers	-	-	476,424,777	-	-	476,424,777	476,424,777
Investments available-for-sale	-	-	-	92,040	-	92,040	92,040
Derivative liabilities held for risk management	-	791,622	-	-	-	791,622	791,622
Amounts owed to banks	-	-	-	-	412,808,494	412,808,494	412,808,494
Amounts owed to customers	-	-	-	-	427,387,411	427,387,411	427,387,411
Debt securities in issue	-	-	-	-	43,141,189	43,141,189	43,141,189
Subordinated debt	-	-	-	-	40,122,813	40,122,813	40,122,813

Financial assets not measured at fair value comprise loans and advances and balances with Central Bank. Loans and advances are reported net of impairment allowances to reflect the estimated recoverable amounts as at the financial reporting date. In the case of loans and advances which are repriceable in the short term, the carrying value approximates to fair value. 85% (2012: 91%) of the Group's and 89% (2012: 94%) of the Bank's loans and advances to customers are repriceable within six months. 90% (2012: 92%) of the Group's and 90% (2012: 92%) of the Bank's loans and advances to banks are repriceable within six months.

Financial liabilities measured at amortised cost comprise debt securities in issue and amounts owed to banks and customers. 88% (2012: 79%) of the Group's and 88% (2012: 81%) of the Bank's amounts owed to banks and customers are repriceable within 6 months. The Group's debt securities in issue are subject to fixed and variable interest rates. Interest rates on debt securities are further disclosed in note 35 to these financial statements.

7 operating segments

The Group has 4 significant reportable segments, Trade Finance, Forfaiting, Factoring and IT Solutions which are represented by different Group entities.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by Executive Management. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Intersegment pricing is determined on an arm's length basis.

information about operating segments

Group – 2013
USD

	Trade Finance	Forfaiting	Factoring	IT Solutions	Other	Total
External revenue:						
Interest income	19,255,074	11,244,650	5,251,632	-	4,761	35,756,117
Fee and commission income	15,126,310	7,229,149	2,482,629	690,061	-	25,528,149
Trading income	(753,799)	(7,567,368)	188,755	6,656	(6,493)	(8,132,249)
	33,627,585	10,906,431	7,923,016	696,717	(1,732)	53,152,017
Intersegment revenue:						
Interest receivable	4,990,962	-	-	-	3,982	4,994,944
Fee and commission income	-	139,079	-	283,644	-	422,723
	4,990,962	139,079	-	283,644	3,982	5,417,667
Reportable segment (loss)/ profit before income tax	(5,219,366)	1,269,918	1,584,844	62,525	(1,120,919)	(3,422,998)
Reportable segment assets	1,120,176,502	280,830,726	88,787,741	1,554,538	62,793,040	1,554,142,547
Reportable segment liabilities	1,012,977,180	214,860,300	49,709,329	540,707	33,392,793	1,311,480,309

Group – 2012
USD

	Trade Finance	Forfaiting	Factoring	IT Solutions	Other	Total
External revenue:						
Interest income	15,937,462	9,762,266	4,477,311	-	-	30,177,039
Fee and commission income	14,407,468	5,829,690	2,278,005	654,345	-	23,169,508
Trading income	(7,415,500)	2,241,954	110,205	(3,841)	192,003	(4,875,179)
	22,929,430	17,833,910	6,865,521	650,504	192,003	48,471,368
Intersegment revenue:						
Interest receivable	4,770,810	-	-	-	-	4,770,810
Fee and commission income	97,402	218,772	-	262,872	-	579,046
	4,868,212	218,772	-	262,872	-	5,349,856
Reportable segment profit/ (loss) before income tax	277,235	8,084,177	2,487,319	83,604	(409,512)	10,522,823
Reportable segment assets	1,014,510,660	253,114,697	79,981,784	1,299,349	66,153,988	1,415,060,478
Reportable segment liabilities	928,019,009	188,414,189	42,968,948	358,123	32,206,490	1,191,966,759

7 *operating segments - continued*

reconciliations of reportable segment revenues, profit or loss and assets and liabilities

REVENUES

	2013 USD	2012 USD
Total revenue for reportable segments	58,567,434	53,629,221
Other revenue	2,250	192,004
	58,569,684	53,821,225
Elimination of intersegment revenue	(5,417,667)	(5,349,856)
Consolidated revenue	53,152,017	48,471,369

PROFIT OR LOSS

	2013 USD	2012 USD
Total (loss)/profit for reportable segments	(2,302,079)	10,932,335
Other profit or (loss)	(1,120,919)	(409,512)
	(3,422,998)	10,522,823
Share of loss of equity accounted investee	(2,977,398)	(1,390,319)
Effect of other consolidation adjustments on segment results	-	(290,340)
Consolidated (loss)/profit before tax	(6,400,396)	8,842,164

ASSETS

	2013 USD	2012 USD
Total assets for reportable segments	1,491,349,507	1,348,906,491
Other assets	62,793,040	66,153,988
	1,554,142,547	1,415,060,479
Elimination of intersegment assets	(315,365,966)	(281,771,633)
Effect of other consolidation adjustments on segment results	(2,782,206)	(2,797,578)
Unallocated amounts	(227,572)	(83,093)
Consolidated assets	1,235,766,803	1,130,408,175

LIABILITIES

	2013 USD	2012 USD
Total liabilities for reportable segments	1,278,087,516	1,159,760,269
Other liabilities	33,392,793	32,206,490
	1,311,480,309	1,191,966,759
Elimination of intersegment liabilities	(224,218,256)	(192,163,438)
Unallocated amounts	(251,392)	(35,412)
Consolidated liabilities	1,087,010,661	999,767,909

7 *operating segments - continued*

geographical areas

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and assets are based on the geographical location of the assets:

Group

	Malta		Other Countries		Total	
	2013 USD	2012 USD	2013 USD	2012 USD	2013 USD	2012 USD
External revenues	3,321,707	3,113,556	49,830,310	45,357,812	53,152,017	48,471,368
Non-current assets	34,972,826	33,701,552	5,376,789	2,424,475	40,349,615	36,126,027

8 net interest income

	Group		Bank	
	2013 USD	2012 USD	2013 USD	2012 USD
Interest income				
On loans and advances to banks	2,876,761	1,868,142	2,870,136	1,843,278
On loans and advances to customers	16,820,397	13,113,390	12,618,229	9,754,958
On loans and advances to subsidiary companies	-	-	4,999,295	4,770,810
On balances with Central Bank of Malta and Treasury Bills	700,978	145,707	700,978	145,707
	20,398,136	15,127,239	21,188,638	16,514,753
On forfaiting assets	11,238,026	9,749,205	-	-
On financial instruments carried at fair value	1,136,673	1,632,983	1,136,673	1,632,983
On held-to-maturity financial instruments	91,807	-	91,807	-
On other trade finance activities	2,891,475	3,667,613	2,891,475	3,667,612
	35,756,117	30,177,040	25,308,593	21,815,348
Interest expense				
On amounts owed to banks	5,800,817	4,458,912	5,258,747	4,237,415
On amounts owed to customers	8,427,802	7,349,461	7,923,926	6,995,139
On debt securities in issue	2,472,937	2,505,618	2,022,453	2,168,567
On subordinated debt	3,112,906	2,887,290	3,112,906	2,887,290
	19,814,462	17,201,281	18,318,032	16,288,411
Net interest income	15,941,655	12,975,759	6,990,561	5,526,937

During the financial year ended 31 December 2013, the Group and Bank amortised issue costs amounting to USD794,486 (2012: USD90,722) in relation to the 7% Subordinated Bonds 2012-2019 and USD310,176 (2012: USD318,469) in relation to the 4.25% Bonds 2013. These amounts were charged to "interest expense on debt securities in issue".

Included in Group and Bank is interest expense amounting to USD451,409 (2012: Nil) payable to a Bank holding a significant shareholding in the Group.

9 net fee and commission income

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Fee and commission income				
Credit related fees and commission	3,090,276	2,880,979	3,090,276	2,880,979
On letters of credit	8,386,828	8,090,869	8,386,828	8,090,869
On factoring	2,322,629	2,133,005	886,864	1,038,538
On forfaiting activities	7,229,149	5,829,690	-	-
On IT Solutions	690,060	654,344	-	-
Other fees	3,809,207	3,580,620	3,640,873	3,533,023
	25,528,149	23,169,507	16,004,841	15,543,409
Fee and commission expense				
Credit related fees	112,004	16,834	112,004	16,834
Correspondent banking fees	407,277	435,948	357,982	391,623
On forfaiting activities	465,171	584,672	-	-
Other fees	1,650,655	1,433,841	869,475	896,120
	2,635,107	2,471,295	1,339,461	1,304,577
Net fee and commission income	22,893,042	20,698,212	14,665,380	14,238,832

10 net trading (expense)/income

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Net trading income from assets held for trading	(7,523,138)	2,274,722	-	-
Foreign exchange rate fluctuations	(609,111)	(7,149,901)	(765,622)	(7,377,031)
	(8,132,249)	(4,875,179)	(765,622)	(7,377,031)

11 net gain from other financial instruments carried at fair value

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Net income on derivatives held for risk management purposes	3,359,849	10,143,806	3,368,181	10,181,135
Investment securities designated at fair value through profit or loss	(610,488)	1,081,740	(610,488)	1,081,740
	2,749,361	11,225,546	2,757,693	11,262,875

12 dividend income

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Dividend from an available-for-sale investment	691	699	691	699
	691	699	691	699

13 other operating income

	Group		Bank	
	2013	2012	2013	2012
	USD	USD	USD	USD
(Loss)/profit on disposal of equipment	(1,425)	(2,776)	5,583	(13,282)
Support fees receivable	20,007	18,571	20,008	18,572
	18,582	15,795	25,591	5,290

14 net impairment loss on financial assets

	Group		Bank	
	2013	2012	2013	2012
	USD	USD	USD	USD
Loans and advances to banks				
- specific impairment allowances	(191,746)	318,467	(191,746)	318,467
- collective impairment allowances	(420,478)	415,339	(420,478)	415,339
- write-offs	-	(1,444,860)	-	(1,444,860)
	(612,224)	(711,054)	(612,224)	(711,054)
Loans and advances to customers				
- specific impairment allowances	(3,806,005)	374,920	(4,618,182)	11,007
- collective impairment allowances	(1,346,399)	(731,950)	(1,312,820)	(593,293)
- write-offs	(799,414)	(469,904)	(184,180)	(469,904)
- recoveries	17,891	214,713	17,891	72,635
	(5,933,927)	(612,221)	(6,097,291)	(979,555)
Net impairment loss	(6,546,151)	(1,323,275)	(6,709,515)	(1,690,609)

15 administrative expenses

15.1 administrative expenses incurred during the year are analysed as follows:

	Group		Bank	
	2013	2012	2013	2012
	USD	USD	USD	USD
Personnel expenses	17,127,363	16,995,421	11,473,594	11,088,153
Operating lease rentals	916,421	1,040,999	1,230,601	1,049,865
Other administrative expenses	9,418,875	8,966,751	7,417,231	6,956,033
Recharge of services rendered by subsidiaries	-	-	431,490	636,424
	27,462,659	27,003,171	20,552,916	19,730,475

Included in Operating Lease Rentals for the Bank is an amount of USD855,351 (2012: USD487,005) payable to a subsidiary company.

Included in other administrative expenses of the Group for the financial year ended 31 December 2013 are fees charged by auditors as follows:

	Audit services	Other assurance services	Tax advisory services	Other non-audit services
	USD	USD	USD	USD
By the auditors of the parent	125,433	32,401	24,323	71,093
Other auditors	169,454	19,975	32,630	-

All fees are inclusive of indirect taxes.

15 administrative expenses - continued

15.2 personnel expenses incurred during the year

	Group		Bank	
	2013	2012	2013	2012
	USD	USD	USD	USD
Directors' emoluments	306,526	178,413	306,526	178,413
Staff costs				
- wages, salaries and allowances	16,024,463	16,103,532	10,736,834	10,540,274
- defined contribution costs	796,374	713,476	430,234	369,466
	17,127,363	16,995,421	11,473,594	11,088,153

15.3 average number of employees

The average number of persons employed during the year was as follows:

	Group		Bank	
	2013 No. of employees	2012 No. of employees	2013 No. of employees	2012 No. of employees
Executive and senior managerial	34	33	15	14
Other managerial, supervisory and clerical	180	169	145	132
Other staff	13	11	4	4
	227	213	164	150

15.4 The Bank has in place Executive Share Option Schemes that are approved by the shareholders by extraordinary resolutions at different General Meetings. The rules for these Schemes regulate the award of Share Options based on the Bank's performance for the year in respect of which the grant is made. Under the Executive Share Option Scheme rules, the Bank awards share options to executives for targeted performance based on the results of the preceding year at the exercise price established at grant date. When the options are exercised, equity is increased by the amount of the proceeds received based on the market price determined on grant date. As at 31 December 2013, there were three schemes under which awarded options are still unexercised.

Movements in the number of share options awarded to executives are as follows:

	Group and Bank	
	2013 No. of share options	2012 No. of share options
As at 1 January	3,655,600	1,733,280
Awarded share options	-	2,000,000
Additional share options as a result of capital restructuring	-	149,332
Forfeited due to termination of employment	(34,320)	(80,496)
Forfeited due to expiry of exercise period	(565,344)	(146,516)
As at 31 December	3,055,936	3,655,600

details of share options granted

	Total	2011 scheme 01/01/14 to 31/12/18	2008 scheme 01/01/11 to 31/12/15	exercise period 2007 scheme 01/01/10 to 31/12/14	2006 scheme 01/01/09 to 31/12/13	2005 scheme 01/01/08 to 31/12/12
Exercise price per USD0.50 share	USD	USD0.7788	USD1.6275	USD1.3248	USD1.4270	USD0.6213
Number of share options unexercised at 1 January 2012	1,733,280	-	474,000	556,800	561,600	140,880
Awarded share options	2,000,000	2,000,000	-	-	-	-
Additional share options as a result of capital restruturing	149,332	80,000	18,960	22,272	22,464	5,636
Forfeited due to termination of employment	(80,496)	(31,200)	(15,600)	(14,976)	(18,720)	-
Forfeited due to expiry of exercise period	(146,516)	-	-	-	-	(146,516)
Number of share options unexercised at 31 December 2012	3,655,600	2,048,800	477,360	564,096	565,344	-

	Total	2011 scheme 01/01/14 to 31/12/18	2008 scheme 01/01/11 to 31/12/15	2007 scheme 01/01/10 to 31/12/14	2006 scheme 01/01/08 to 31/12/13
Exercise price per USD0.50 share	USD	USD0.7788	USD1.6275	USD1.3248	USD1.4270
Number of share options unexercised at 1 January 2013	3,655,600	2,048,800	477,360	564,096	565,344
Forfeited due to termination of employment	(34,320)	(34,320)	-	-	-
Forfeited due to expiry of exercise period	(565,344)	-	-	-	(565,344)
Number of share options unexercised at 31 December 2013	3,055,936	2,014,480	477,360	564,096	-

15.5 The share option schemes approved in 2005 and 2006 expired during the financial years ended 31 December 2012 and 31 December 2013 respectively and all unexercised options as at the expiry date were forfeited in accordance with the applicable scheme rules.

16 taxation

16.1 taxation, which is based on the taxable profit for the year comprises:

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Current tax				
- current year	(898)	(33,901)	(201)	(32,023)
Deferred tax				
- origination and reversal of temporary differences	2,185,885	(9,730)	2,175,806	(9,879)
Taxation in income statement	2,184,987	(43,631)	2,175,605	(41,902)

16.2 Taxation for the year and the result of the accounting profit multiplied by the tax rate applicable in Malta, are reconciled as follows:

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
(Loss)/profit before tax	(6,400,396)	8,842,164	(5,006,374)	1,570,054
Tax expense using the domestic income tax rate of 35%	2,240,139	(3,094,757)	1,752,231	(549,519)
Tax effect of:				
Non deductible expenses	(417,075)	(434,658)	(183,081)	(154,319)
Non taxable income	-	54,575	-	-
Temporary differences previously not recognised	740,757	2,637,549	606,586	682,750
Effect of tax rates in foreign jurisdictions	(131)	-	(131)	(20,814)
Investment tax credit	33,096	33,635	-	-
Share of loss from equity accounted investees	(1,042,091)	(486,612)	-	-
Different tax rates	630,292	1,246,637	-	-
Taxation	2,184,987	(43,631)	2,175,605	(41,902)

17 earnings per share

17.1 basic earnings per share

The calculation of the Group's and Bank's earnings per share at 31 December 2013 was based on the loss attributable to ordinary shareholders of USD4,215,409 and USD2,830,769 (2012: profit of USD8,798,533 and profit of USD1,528,152) for the Group and Bank respectively divided by the weighted average number of ordinary shares in issue during the year ended 31 December 2013 of 158,438,705 shares (2012: 142,604,527 shares).

17.2 diluted earnings per share

The calculation of the Group's and Bank's diluted earnings per share at 31 December 2013 was based on the loss attributable to ordinary shareholders of USD4,215,409 and USD2,830,769 (2012: profit of USD8,798,533 and profit of USD1,528,152) for the Group and Bank respectively divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2013 of 158,871,337 shares (2012: 142,709,837 shares).

17 *earnings per share - continued*

Diluted (loss)/profit attributable to ordinary shareholders and weighted average number of ordinary shares are calculated as follows:

(Loss)/profit attributable to ordinary shareholders (diluted):

	Group		Bank	
	2013 USD	2012 USD	2013 USD	2012 USD
(Loss)/Profit attributable to ordinary shareholders (diluted)	(4,215,409)	8,798,533	(2,830,769)	1,528,152

Weighted average number of ordinary shares (diluted):

	2013 No. of shares	2012 No. of shares
Weighted average number of ordinary shares at 31 December	158,438,705	142,604,527
Effect of share options on issue	432,632	105,310
Weighted average number of ordinary shares (diluted) at 31 December	158,871,337	142,709,837

18 balances with the central bank of malta, treasury bills and cash

	Group		Bank	
	2013 USD	2012 USD	2013 USD	2012 USD
Balances with the Central Bank of Malta	7,827,151	7,695,604	7,827,151	7,695,604
Treasury bills	61,840,295	13,107,216	61,840,295	13,107,216
Cash	39,779	28,727	13,520	15,837
	69,707,225	20,831,547	69,680,966	20,818,657

Balances with the Central Bank of Malta include a reserve deposit in terms of Regulation (EC) No: 1745/2003 of the European Central Bank.

19 trading assets

Trading assets represent forfaiting assets held by London Forfaiting Company Limited (a subsidiary) and comprise bills of exchange, promissory notes and transferable trade related loans. These assets are held for short-term trading.

20 derivatives held for risk management

	Group		Bank	
	2013 USD	2012 USD	2013 USD	2012 USD
Derivative assets held for risk management				
- interest rate	-	-	55,246	45,960
- foreign exchange	828,234	893,552	828,234	893,552
	828,234	893,552	883,480	939,512
Derivative liabilities held for risk management				
- foreign exchange	506,477	791,622	506,477	791,622
	506,477	791,622	506,477	791,622

21 financial assets designated at fair value through profit or loss

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Designated at fair value through profit or loss				
- foreign listed debt securities	-	13,187,393	-	13,187,393
- unlisted debt securities	17,700,000	42,402,000	17,700,000	42,402,000
	17,700,000	55,589,393	17,700,000	55,589,393

21.1 Unlisted debt securities consist of credit linked notes, whereby the Group is funding the risk of default with respect to specified borrowers. The notes have an embedded instrument linked to the credit risk of a reference basket. In view that the embedded derivative modifies significantly the cash flows of the underlying host contract, the credit linked note is measured at fair value with changes in fair value recognised in the income statement. As a result, the embedded credit derivative is not required to be separated from the host contract represented by the debt instrument. The financial asset was therefore not bifurcated but accounted for as one contract.

These financial assets are not exchange traded and therefore management estimated the fair value at the amount that the Group would receive or pay to terminate the contract at the financial reporting date taking into account current market conditions and the current credit worthiness of the counter parties by reference to dealer price quotations.

Changes in fair value of unlisted debt securities designated at fair value through profit or loss is presented within "net gain from other financial instruments carried at fair value".

21.2 Financial assets designated at fair value through profit or loss include assets amounting to USD17,700,000 (2012: USD38,152,000) pledged in favour of third parties.

22 loans and advances to banks

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Repayable on call and at short notice	180,190,620	158,814,641	170,228,259	153,544,658
Term loans and advances	163,333,180	242,441,884	163,898,388	243,607,378
Total loans and advances	343,523,800	401,256,525	334,126,647	397,152,036
Specific impairment	(3,018,806)	(2,827,060)	(3,018,806)	(2,827,060)
Collective impairment	(2,529,523)	(2,109,045)	(2,529,523)	(2,109,045)
Net loans and advances	337,975,471	396,320,420	328,578,318	392,215,931

Loans and advances to banks include blocked funds amounting to USD113,096 (2012: USD113,096) pursuant to US Sanctions. The balances also include pledged funds amounting to USD7,678,295 (2012: USD46,336,849), of which an amount of USD873,420 (2012: USD421,444) represents pledged funds in favour of the Depositor Compensation Scheme Reserve.

The aggregate amount of impaired loans to banks amounted to USD5,178,378 (2012: USD13,178,407), gross of collaterals. Specific impairment is exclusive of USD2,083,820 (2012: USD1,841,389) in respect of suspended interest not recognised in interest receivable.

23 loans and advances to customers

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Repayable on call and at short notice	191,431,180	190,007,479	191,605,854	190,581,020
Term loans and advances	242,103,883	150,235,934	187,475,638	102,519,673
	433,535,063	340,243,413	379,081,492	293,100,693
Amounts owed by subsidiary companies	-	-	230,548,492	193,221,846
Total loans and advances	433,535,063	340,243,413	609,629,984	486,322,539
Specific impairment	(12,312,031)	(8,506,027)	(12,283,630)	(7,665,449)
Collective impairment	(3,753,495)	(2,407,096)	(3,545,133)	(2,232,313)
Net loans and advances	417,469,537	329,330,290	593,801,221	476,424,777

Loans and advances to customers include assets with a nominal value of USD8,665,235 (2012: USD16,165,235) pledged in favour of third parties.

For the Group, the aggregate amount of impaired loans and advances to customers amounted to USD35,125,380 (2012: USD27,272,938), gross of collaterals. Specific impairment is exclusive of USD11,408,115 (2012: USD10,195,639) in respect of suspended interest not recognised in interest receivable.

For the Bank, the aggregate amount of impaired loans and advances to customers amounted to USD31,325,310 (2012: USD20,561,958), gross of collaterals. Specific impairment is exclusive of USD11,233,442 (2012: USD9,937,627) in respect of suspended interest not recognised in interest receivable.

24 investments available-for-sale

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Local unlisted sub-funds of collective investment schemes	26,383,462	-	26,383,462	-
Foreign unlisted equities	92,742	92,742	92,040	92,040
	26,476,204	92,742	26,475,502	92,040

Whilst there is no active market for these investments, fair value for the collective investment schemes is determined by reference to funds' net asset values and fair value for the equities is determined by reference to broker prices. Fair value movement is recognised, net of deferred tax, in fair value reserve.

At reporting date, the Group and Bank held an investment of USD24,325,920 (2012: Nil) in a local unlisted sub-fund of a collective investment scheme which is independently run by an investment manager licensed and regulated by the Financial Conduct Authority in London. The Group is a seed investor in the fund, being the subscriber to the whole investor units currently in issue. Such investor shares entitle the Group to a preferential fee structure as applicable to all other holders of the same class of shares. Presently, the sub-fund is seeking additional investment capital from third-parties which would dilute the Group's unit holding percentage in the sub-fund. In addition to this, the Group is represented on the sub-fund's Advisory Board by 1 out of 3 members. The Advisory Board acts solely in an advising capacity and the Investment Manager may, in its own discretion, ignore, accept or reject any recommendations of the Advisory Board.

The Group also has a Sub-Fund Service Agreement ("SFSA") with the Investment Manager whereby the Group assists in the risk analysis, credit analysis, recovery and enforcement actions, portfolio monitoring, report production, assisting in the valuation, assisting with regulators engagements, provision of information as requested, assisting in preparing marketing material, and preparation of material for the assistance in the evaluation of transactions by the Advisory Board.

24 *investments available-for-sale - continued*

Remuneration to the Group in respect of the SFSA is a direct function of the fees generated by the fund (both from Seed and Investor shares).

The Group, through its various entities, offers/sells trade finance transactions to the sub-fund that are in line with its investment objectives. The offer to the sub-fund is subject to discussions and analysis within the Advisory Board, and the ultimate decision to participate or otherwise rests with the independent Investment Manager. All such transactions are offered/sold to the fund on an arm-length basis.

Although the Group currently holds the whole seed shares in the sub-fund, these shares do not carry any voting rights in relation to management and control of the fund; the contractual relationship by virtue of the SFSA is purely operational, in that the Group is performing "back-office" operations for the Investment Manager; and the sub-fund has no investment restrictions and it can invest in both exposures of the Group or in assets sourced from 3rd parties.

Since the Group does not have the power to direct the relevant activities of the sub-fund or to affect the amount of own returns it is not consolidating its investment and is measuring it at fair value through other comprehensive income.

25 investments held-to-maturity

	Group		Bank	
	2013 USD	2012 USD	2013 USD	2012 USD
Foreign unlisted subordinated bonds	6,783,621	-	6,783,621	-
	6,783,621	-	6,783,621	-

The held-to-maturity instruments carried by the Group and Bank ware issued by a Bank holding a significant shareholding in the Group.

26 investments in equity accounted investees

26.1 the Group's investment in associates is analysed as follows:

Name of Company	Country of incorporation	Nature of business	Class of shares	Equity interest 2013 %	Equity interest 2012 %	Group 2013 USD	Group 2012 USD
BRASILFACTORS S.A. ("BRASILFACTORS")	Brazil	Factoring	Ordinary Shares	40	40	2,052,787	2,956,515
CIS Factors Holdings B.V. ("CIS Factors")	The Netherlands	Holding Company	Ordinary Shares	40[1]	40	316,721	2,711,980
India Factoring and Finance Solutions Private Limited ("India Factoring")	India	Factoring	Ordinary Shares	49	49	16,676,063	18,261,457
Levant Factors S.A.L. ("Levant Factors")	Lebanon	Factoring	Ordinary Shares	50	50	-	664,455
The Egyptian Company for Factoring S.A.E. ("Egypt Factors")	Egypt	Factoring	Ordinary Shares	40	40	3,231,219	3,215,847
						22,276,790	27,810,254
At 1 January						27,810,254	22,501,596
Investment in India Factoring						-	4,752,941
Investment in Egypt Factors						-	2,800,000
Net share of losses						(2,977,398)	(1,390,319)
Currency translation difference						(2,556,066)	(853,964)
At 31 December						22,276,790	27,810,254

[1] See Note 48 for change in equity interest after the reporting date.

26 investments in equity accounted investees - continued

26.2 the Bank's investment in associate entities is analysed as follows:

Name of Company	Country of incorporation	Nature of business	Class of shares	Equity interest 2013 %	Equity interest 2012 %	Bank 2013 USD	Bank 2012 USD
The Egyptian Company for Factoring S.A.E. ("Egypt Factors")	Egypt	Factoring	Ordinary Shares	40	40	6,013,425	6,013,425
						6,013,425	6,013,425
At 1 January						6,013,425	3,213,425
Investment in Egypt Factors						-	2,800,000
At 31 December						6,013,425	6,013,425

26.3 impairment assessment

At each reporting date the Bank carries out an impairment assessment to calculate the recoverable amounts of its investment in associates (at cost) and determine the possibility of an impairment loss. The recoverable amounts of the investment in associates have been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of each entity. No impairment losses were recognised during the financial year ended 31 December 2013 (2012: Nil) as the recoverable amounts of these investments were determined to be higher than the carrying amount.

In determining the recoverable amounts, the Bank used four years of cash flows in the discounted cash flow model. A long-term growth rate into perpetuity was estimated by management based on the long-term compound annual profit before taxes, depreciation and amortisation. Budgeted profit before taxes, depreciation and amortisation was based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth. Cash flows were discounted at a pre-tax measure based on the rate of 10-year government bonds adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the specific investment.

The key assumptions described above may change with economic, political and market conditions as well as a result of developments that are more entity-specific. In particular the Bank monitors controls over asset-quality of the associate and enquires on any events that may lead to potential impairments. Based on representations by the entity's management and information currently available, the Bank estimates that possible changes in these assumptions are not of such significance that would hinder the operations of the entity in the market and would not cause the recoverable amount of the entity to decline below the carrying amount.

26.4 BRASILFACTORS S.A. ("BRASILFACTORS")

In September 2011, the Group, through its wholly owned subsidiary FIMFactors B.V., incorporated BRASILFACTORS S.A. ("BRASILFACTORS"), a factoring company incorporated in São Paolo, Brazil. BRASILFactors' core business focuses on factoring services and forfaiting, with small and medium-sized companies being its target market. The Group has a 40% holding in the company, with the other shareholders being Banco Industrial e Comercial S.A. ("BICBANCO") and the International Finance Corporation ("IFC"), each holding 40% and 20% respectively.

In addition, as part of the above transaction, a Put Option Agreement has been entered between FIMFactors, BICBANCO and the IFC (the "Put Option Agreement"). Through this agreement, BICBANCO and FIMFactors (together the "Sponsors") have granted an option to IFC for the latter to sell to the Sponsors, on one or more occasions, all or part of the shares owned by IFC in BRASILFACTORS subject to such terms and conditions specified in the Shareholders' Agreement. The exercise of the option by IFC creates a corresponding joint and several obligation on the Sponsors to purchase such shares in BRASILFACTORS.

The "Put Period" is defined as the period beginning on the third anniversary of the date on which IFC first subscribes for shares of BRASILFACTORS, and ending on the date in which a firmly underwritten public offering of common shares of BRASILFACTORS has been consummated upon condition that:

a. such offering is on a Relevant Market and undertaken by a reputable underwriter;
b. at least twenty-five per cent (25%) of the issued and outstanding shares of BRASILFACTORS are held by persons other than IFC, the Sponsors and their respective Affiliates;

c. all common shares of BRASILFACTORS may be traded without restriction (other than customary restrictions contained in lock-up agreements with the managing underwriter or required by any applicable regulation) in the Relevant Market; and

d. the price per share of the common shares of BRASILFACTORS shall be at least two times the Book Value per Share (calculated as of the date of settlement of such offering).

The "Put Price" is defined, in relation to any given exercise of the Put Option, as the amount obtained by multiplying:

a. the higher of (i) the Dollar Amount of the Per Share Subscription Price paid by IFC under the Subscription Agreement; and
(ii) the Book Value Put Price Per Share, by;

b. the number of Put Shares set out in the relevant Put Notice.

In the opinion of the Directors, the fair value of the Put Option at the financial reporting date (and on initial recognition) is close to zero.

26.5 CIS Factors Holdings B.V. ("CIS Factors")

In November 2009, the Group, through its wholly owned subsidiary FIMFactors B.V., incorporated CIS Factors Holdings B.V. ("CIS Factors"), a company set-up under the laws of the Netherlands with the aim to serve as an investment vehicle for a factoring company incorporated under the laws of the Russian Federation and provides factoring services in Russia. The Group has a 40% holding in CIS Factors, with the other shareholders being Joint Stock Bank Transcapitalbank ("Transcapital Bank") and the International Finance Corporation ("IFC"), each holding 40% and 20% respectively.

In addition, as part of the above transaction, a Put Option Agreement has been entered between FIMFactors, Transcapitalbank and the IFC (the "Put Option Agreement"). By virtue of this Put Option Agreement, FIMFactors and Transcapitalbank (together the "Sponsors") have granted an option to IFC for the latter to sell to both Sponsors, on one or more occasions, all or a part of the shares owned by IFC in CIS Factors, subject to such terms and conditions as are specified in the Put Option Agreement. The exercise of the option by IFC creates corresponding joint and several obligations on the Sponsors to purchase such shares in CIS Factors.

The "Put Period" is defined as the period beginning on the fifth anniversary of the date on which IFC first subscribes for shares in CIS Factors under the Subscription Agreement, and ending on the date on which IFC shall have delivered to the Sponsors and CIS Factors a notice stating that all of the requirements set out below have been met:

a. a Listing has occurred on a Relevant Market;

b. at least twenty five percent (25%) of the issued and outstanding ordinary shares of CIS Factors are held by Persons other than Affiliates (including IFC) and are tradable without restriction on such Relevant Market;

c. the average trading volume of the ordinary shares of CIS Factors (excluding direct or indirect trading by the Sponsors, CIS Factors or their respective Affiliates) on such Relevant Market, during any period of six consecutive months is not less than two times the total number of the ordinary shares of CIS Factors owned by IFC at that date;

d. the average price per share of the ordinary shares of CIS Factors traded on such Relevant Market during any period of six consecutive months is not lower than the price per share as of the date of the Listing;

e. IFC has received a certificate executed by the Sponsors and CIS Factors certifying that the conditions stated in sub-sections (c) and (d) have been met; and

f. all shares of CIS Factors and all Share Equivalents held by IFC are immediately convertible, exercisable or exchangeable into ordinary shares of CIS Factors and can be traded without restriction on such Relevant Market;

The "Put Price" is defined, in relation to any given exercise of the Put Option, as the higher of:

a. the Investment Cost of those Put Shares; and

b. the aggregate of the Book Value Put Price Per Share multiplied by the number of Put Shares, provided that in the event that the Put Price would be less than zero, the Put Price shall be zero.

In the opinion of the Directors, the fair value of the Put Option at the financial reporting date (and on initial recognition) is close to zero.

26.6 India Factoring and Finance Solutions Private Limited ("India Factoring")

In 2010, the Group, through its wholly owned subsidiary FIMFactors B.V., incorporated India Factoring and Finance Solutions Private Limited ("India Factoring"), a company incorporated under Indian law and with its registered of fice in Mumbai, India. The Group holds a 49% shareholding with Punjab National Bank (30% ownership), Banca IFIS (10% ownership)and Blend Financial Services Limited (1% ownership). Key management personnel have been incentivised by giving them a stake of 10%. India Factoring was granted an operating license in December 2010 and is regulated by the Reserve Bank of India. India Factoring provides factoring, forfaiting and trade finance related activities in India.

26.7 Levant Factors S.A.L. ("Levant Factors")

In March 2009, the Group, through its wholly owned subsidiary Menafactors, acquired 25% of Levant Factors S.A.L., a factoring company incorporated in Beirut, Lebanon. A further investment in the company was made in April 2011, bringing the total investment in the company to 50%. The Group is not deemed to have a controlling interest in the company and kept measuring its investment using the Equity Method. The other major shareholder (49.25%) in Levant Factors is The Lebanese Credit Insurer S.A.L, a joint venture between ATRADIUS Re and a group of local and regional insurance companies and investors.

26.8 The Egyptian Company for Factoring S.A.E. ("Egypt Factors")

In November 2006, the Bank incorporated Egypt Factors, a company which provides factoring services in Egypt. The Bank has a 40% investment in Egypt Factors with the other shareholders being Commercial International Bank ("CIB") and International Finance Corporation ("IFC") (holding 40% and 20% equity respectively).

On the same day of incorporating Egypt Factors, the Bank entered into a Put Option Agreement (the "Put Option Agreement") with CIB and IFC. The Put Option Agreement gives the right to IFC, by sending a notice of exercise to CIB and/or FIMBank, at any time during the exercise period, to sell to CIB and/or FIMBank, jointly and severally, all or part of IFC's shareholding in Egypt Factors at the exercise price.

The "Exercise Period" is defined as the period commencing on the fifth anniversary from the receipt of the licence by Egypt Factors from the local regulators (i.e. 26 April 2007) and terminating on the tenth anniversary of such date, unless an event of default (as defined in the Put Option Agreement) has occurred before such fifth anniversary, in which case the exercise period commences on the date of that event of default.

The "Exercise Price" has been fixed at the higher of:

(a) The coefficient multiplied by the number of shares subject to the put option; and

(b) The investment costs per share (i.e. the total investment by IFC from time to time in Egypt Factors until the date of notice of exercise divided by the total number of shares subject to the put option).

In the opinion of the Directors, the fair value of the put option at the financial reporting date (and on initial recognition) is close to zero.

26.9 Summary of financial information for equity accounted investees not adjusted for the percentage ownership of the Group:

	Total assets	Total liabilities	Total revenue	Total expenses	(Loss)/profit for the year
	USD	USD	USD	USD	USD
31 December 2013					
BRASILFACTORS	12,530,639	7,398,675	837,433	(2,233,172)	(1,395,739)
CIS Factors	16,984,597	17,292,974	1,626,782	(7,227,074)	(5,600,292)
India Factoring[2]	134,642,179	104,028,199	16,177,006	(15,393,491)	783,515
Levant Factors	7,701,029	8,498,307	1,032,627	(3,121,081)	(2,088,454)
Egypt Factors	73,437,368	65,392,881	6,840,211	(6,634,261)	205,950
31 December 2012					
BRASILFACTORS	8,089,840	698,556	1,047,605	(2,049,552)	(1,001,947)
CIS Factors	37,594,526	31,866,877	2,111,895	(3,306,939)	(1,195,044)
India Factoring[2]	132,547,611	131,979,625	16,387,002	(16,246,586)	140,416
Levant Factors	9,480,035	8,188,857	923,332	(844,042)	79,290
Egypt Factors	47,822,149	39,816,090	4,243,696	(5,091,792)	(848,096)

[2]Revenue, expenses and results for the year are for the period 1st April to 31st December of the respective period

27 investments in subsidiaries

27.1 capital subscribed

	Bank 2013 USD	Bank 2012 USD
At 1 January	78,234,301	73,481,359
Additional investment in FIM Property Investment Limited	1,000,000	-
Additional investment in FIMFactors B.V.	-	4,752,942
At 31 December	79,234,301	78,234,301

27.2 investments in subsidiaries

Name of Company	Country of incorporation	Nature of business	Equity interest 2013 %	Equity interest 2012 %	Bank 2013 USD	Bank 2012 USD
London Forfaiting Company Limited	UK	Forfaiting	100	100	37,366,435	37,366,435
FIMFactors B.V.	Netherlands	Holding Company	100	100	40,860,866	40,860,866
FIM Business Solutions Limited	Malta	IT Services Provider	100	100	5,000	5,000
FIM Property Investment Limited	Malta	Property Management	100	100	1,002,000	2,000
					79,234,301	78,234,301

27.3 The Bank, indirectly through London Forfaiting Company Limited, controls the following subsidiaries:

Name of Company	Country of incorporation	Nature of business	Equity interest 2013 %	Equity interest 2012 %
London Forfaiting International Limited	UK	Holding company	100	100
London Forfaiting Americas Inc. *	United States of America	Marketing	100	100
London Forfaiting do Brasil Ltda. *	Brazil	Marketing	100	100

* A wholly-owned subsidiary of London Forfaiting International Limited

27.4 The Bank, indirectly through FIMFactors B.V., controls the following subsidiary:

Name of Company	Country of incorporation	Nature of business	Equity interest 2013 %	Equity interest 2012 %
Menafactors Limited	United Arab Emirates	Factoring Company	100	100

27.5 impairment assessment

At each reporting date the Bank carries out an impairment assessment to calculate the recoverable amounts of its investment in subsidiaries (at cost) and determine the possibility of an impairment loss. The recoverable amounts of the investment in subsidiaries have been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of each entity. No impairment losses were recognised during the financial year ended 31 December 2013 (2012: Nil) as the recoverable amounts of these investments were determined to be higher that the carrying amount.

27 *investments in subsidiaries - continued*

In determining the recoverable amounts, the Bank used four years of cash flows in the discounted cash flow model. A long-term growth rate into perpetuity was estimated by management based on the long-term compound annual profit before taxes, depreciation and amortisation. Budgeted profit before taxes, depreciation and amortisation was based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth. Cash flows were discounted at a pre-tax measure based on the rate of 10-year government bonds adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the specific investment.

The key assumptions described above may change as economic, political and market conditions change. The Bank estimates that possible changes to these assumptions, unless they are of such significance that would hinder the operations of the entities in their respective markets, would not cause the recoverable amount of the entities to decline below the carrying amount.

28 property and equipment

Group

	Freehold land	Freehold premises	Computer system	Improvement to premises	Computer equipment	Others	Total
	USD	USD	USD	USD	USD	USD	USD
Cost							
At 1 January 2012	6,892,057	224,303	1,955,011	960,624	2,768,536	19,649,711	32,450,242
Acquisitions during the year	-	3,572,455	-	318,123	80,631	5,862,630	9,833,839
Reclassification of assets brought into use	29,532	22,164,271	-	-	-	(22,193,803)	-
Disposals during the year	-	-	-	(562,655)	(884,399)	(670,864)	(2,117,918)
At 31 December 2012	6,921,589	25,961,029	1,955,011	716,092	1,964,768	2,647,674	40,166,163
At 1 January 2013	6,921,589	25,961,029	1,955,011	716,092	1,964,768	2,647,674	40,166,163
Acquisitions during the year	-	4,714,023	-	47,658	277,930	941,035	5,980,646
Disposals during the year	-	-	-	(85,419)	(125,892)	(412,975)	(624,286)
At 31 December 2013	6,921,589	30,675,052	1,955,011	678,331	2,116,806	3,175,734	45,522,523
Depreciation							
At 1 January 2012	-	41,755	1,232,399	745,450	2,296,567	2,100,398	6,416,569
Charge for the year	-	365,846	163,620	67,653	173,464	224,036	994,619
Disposals during the year	-	-	-	(543,773)	(884,767)	(606,952)	(2,035,492)
At 31 December 2012	-	407,601	1,396,019	269,330	1,585,264	1,717,482	5,375,696
At 1 January 2013	-	407,601	1,396,019	269,330	1,585,264	1,717,482	5,375,696
Charge for the year	-	994,988	163,602	66,706	168,733	361,454	1,755,483
Disposals during the year	-	-	-	(84,110)	(125,312)	(406,127)	(615,549)
At 31 December 2013	-	1,402,589	1,559,621	251,926	1,628,685	1,672,809	6,515,630
Carrying amounts							
At 1 January 2012	6,892,057	182,548	722,612	215,174	471,969	17,549,313	26,033,673
At 31 December 2012	6,921,589	25,553,428	558,992	446,762	379,504	930,192	34,790,467
At 1 January 2013	6,921,589	25,553,428	558,992	446,762	379,504	930,192	34,790,467
At 31 December 2013	6,921,589	29,272,463	395,390	426,405	488,121	1,502,925	39,006,893

Property and equipment include assets amounting to USD32,606,029 hypothecated in favour of third party banks up to USD7,709,000 (2012: USD8,813,000).

28 *property and equipment - continued*

Bank

	Freehold premises	Computer system	Improvement to leasehold premises	Computer equipment	Others	Total
	USD	USD	USD	USD	USD	USD
Cost						
At 1 January 2012	221,708	1,955,011	715,286	2,179,257	1,859,664	6,930,926
Acquisitions during the year	-	-	318,123	52,086	406,031	776,240
Disposals during the year	-	-	(560,566)	(808,875)	(532,347)	(1,901,788)
At 31 December 2012	221,708	1,955,011	472,843	1,422,468	1,733,348	5,805,378
At 1 January 2013	221,708	1,955,011	472,843	1,422,468	1,733,348	5,805,378
Acquisitions during the year	-	-	47,658	165,013	222,078	434,749
Disposals during the year	-	-	(5,317)	(2,402)	(52,395)	(60,114)
At 31 December 2013	221,708	1,955,011	515,184	1,585,079	1,903,031	6,180,013
Depreciation						
At 1 January 2012	41,757	1,232,399	584,474	1,800,749	1,389,434	5,048,813
Charge for the year	4,433	163,620	35,765	106,126	148,076	458,020
Disposals during the year	-	-	(541,684)	(808,875)	(531,141)	(1,881,700)
At 31 December 2012	46,190	1,396,019	78,555	1,098,000	1,006,369	3,625,133
At 1 January 2013	46,190	1,396,019	78,555	1,098,000	1,006,369	3,625,133
Charge for the year	4,434	163,602	35,020	131,054	208,462	542,572
Disposals during the year	-	-	(4,440)	(2,402)	(51,612)	(58,454)
At 31 December 2013	50,624	1,559,621	109,135	1,226,652	1,163,219	4,109,251
Carrying amounts						
At 1 January 2012	179,951	722,612	130,812	378,508	470,230	1,882,113
At 31 December 2012	175,518	558,992	394,288	324,468	726,979	2,180,245
At 1 January 2013	175,518	558,992	394,288	324,468	726,979	2,180,245
At 31 December 2013	171,084	395,390	406,049	358,427	739,812	2,070,762

29 intangible assets

Group

	Software licences USD
Cost	
At 1 January 2012	3,348,763
Additions	249,818
At 31 December 2012	3,598,581
At 1 January 2013	3,598,581
Additions	460,022
Disposals	(65,335)
At 31 December 2013	3,993,268
Amortisation	
At 1 January 2012	1,775,738
Charge for the year	487,284
At 31 December 2012	2,263,022
At 1 January 2013	2,263,022
Charge for the year	452,866
Disposals	(65,342)
At 31 December 2013	2,650,546
Carrying amounts	
At 1 January 2012	1,573,025
At 31 December 2012	1,335,559
At 1 January 2013	1,335,559
At 31 December 2013	1,342,722

Bank

	Software licences USD
Cost	
At 1 January 2012	1,370,449
Additions during the year	176,799
At 31 December 2012	1,547,248
At 1 January 2013	1,547,248
Additions during the year	292,256
At 31 December 2013	1,839,504
Amortisation	
At 1 January 2012	716,803
Charge for the year	208,444
At 31 December 2012	925,247
At 1 January 2013	925,247
Charge for the year	198,744
At 31 December 2013	1,123,991
Carrying amounts	
At 1 January 2012	653,646
At 31 December 2012	622,001
At 1 January 2013	622,001
At 31 December 2013	715,513

30 deferred taxation

30.1 deferred taxation is analysed as follows:

	Group		Bank	
	2013	2012	2013	2012
	USD	USD	USD	USD
Tax effect of temporary differences relating to:				
- excess of capital allowances over depreciation	(518,872)	(542,517)	(368,089)	(379,009)
- allowances for uncollectibility	6,629,256	3,800,742	6,629,255	3,800,742
- changes in fair value of financial instruments	(163,568)	506,084	(163,426)	506,108
- investment tax credits	328,489	331,017	-	-
- unabsorbed capital allowances	183,379	315,767	183,378	315,767
- unabsorbed tax losses	6,785,068	6,785,068	213,388	213,388
	13,243,752	11,196,161	6,494,506	4,456,996

30.2 unrecognised deferred taxation

At the financial reporting date the Bank had unrecognised temporary differences amounting to USD15.7 million (2012: USD17.5 million). In addition Group subsidiaries had unrecognised and unutilised tax losses and tax credits amounting to USD33.4 million (2012: USD38.9 million) and USD0.6 million (2012: USD0.6 million) respectively available against future taxable profits.

30.3 movements in temporary differences during the year:

Group

	Opening balance	Recognised in other comprehensive income	Recognised in profit or loss	Closing balance
	USD	USD	USD	USD
2012				
Excess of capital allowances over depreciation	(457,878)	-	(84,639)	(542,517)
Allowances for uncollectibility	2,830,647	-	970,095	3,800,742
Changes in fair values of financial instruments	1,927,880	-	(1,421,796)	506,084
Investment tax credits	333,562	-	(2,545)	331,017
Unabsorbed capital allowances	-	-	315,767	315,767
Unabsorbed tax losses	6,571,680	-	213,388	6,785,068
	11,205,891	-	(9,730)	11,196,161
2013				
Excess of capital allowances over depreciation	(542,517)	-	23,645	(518,872)
Allowances for uncollectibility	3,800,742	-	2,828,514	6,629,256
Changes in fair values of financial instruments	506,084	(85,811)	(583,841)	(163,568)
Investment tax credits	331,017	-	(2,528)	328,489
Unabsorbed capital allowances	315,767	-	(132,388)	183,379
Unabsorbed tax losses	6,785,068	-	-	6,785,068
	11,196,161	(85,811)	2,133,402	13,243,752

30 *deferred taxation - continued*

Bank

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Closing balance USD
2012				
Excess of capital allowances over depreciation	(291,507)	-	(87,502)	(379,009)
Allowances for uncollectibility	2,830,647	-	970,095	3,800,742
Changes in fair values of financial instruments	1,927,735	-	(1,421,627)	506,108
Unabsorbed capital allowances	-	-	315,767	315,767
Unabsorbed tax losses	-	-	213,388	213,388
	4,466,875	-	(9,879)	4,456,996
2013				
Excess of capital allowances over depreciation	(379,009)	-	10,920	(368,089)
Allowances for uncollectibility	3,800,742	-	2,828,513	6,629,255
Changes in fair values of financial instruments	506,108	(85,811)	(583,723)	(163,426)
Unabsorbed capital allowances	315,767	-	(132,389)	183,378
Unabsorbed tax losses	213,388	-	-	213,388
	4,456,996	(85,811)	2,123,321	6,494,506

31 other assets

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Operational debtors and other recoverable amounts	4,594,042	3,088,990	3,840,295	2,383,417
Indirect taxation	398,367	836,274	144,466	197,882
	4,992,409	3,925,264	3,984,761	2,581,299

Other assets include an amount of USD582,280 (2012: USD526,009) pledged in favour of the Depositor Compensation Scheme.

32 prepayments and accrued income

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Accrued income	1,277,168	446,334	1,267,508	425,883
Prepayments	1,790,487	1,368,890	1,367,627	979,241
	3,067,655	1,815,224	2,635,135	1,405,124

33 amounts owed to banks

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Term loans and deposits	490,320,410	337,809,390	480,419,138	318,775,962
Repayable on demand	113,132,450	94,032,532	113,132,450	94,032,532
	603,452,860	431,841,922	593,551,588	412,808,494

Included in term loans and deposits are amounts of USD150,000,000 (2012: Nil) due to a Bank holding a significant shareholding in the Group.

34 amounts owed to customers

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Term deposits	214,971,969	209,306,855	205,971,969	186,806,855
Repayable on demand	216,714,797	245,550,625	207,778,671	239,949,936
	431,686,766	454,857,480	413,750,640	426,756,791
Amounts owed to subsidiaries	-	-	1,095,637	630,620
	431,686,766	454,857,480	414,846,277	427,387,411

Included in the Group customer accounts are deposits amounting to USD52,729,945 (2012: USD94,435,232) held as collateral for irrevocable commitments. Included in the Bank customer accounts are deposits amounting to USD43,793,819 (2012: USD89,085,578) held as collateral for irrevocable commitments.

35 debt securities in issue

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Unsecured promissory notes (note 35.1)	35,498,006	8,814,930	-	-
Bonds (note 35.2)	-	43,141,189	-	43,141,189
	35,498,006	51,956,119	-	43,141,189

35.1 unsecured promissory notes

Unsecured promissory notes are issued by a subsidiary company. At 31 December 2013, notes issued by the subsidiary company have a tenor of up to one year. The Group's effective interest rate for 2013 is 2.22% (2012: 2.09%).

35.2 bonds

On 30 November 2013, the Bank redeemed the 4.25% Bonds at their nominal value of USD100 per bond.

36 subordinated debt

	Group and Bank 2013 USD	Group and Bank 2012 USD
Subordinated convertible loan (note 36.1)	-	1,714,286
Subordinated bonds (note 36.2)	-	38,408,527
	-	40,122,813

36.1 subordinated convertible loan

The subordinated convertible loan, payable to the International Finance Corporation, was settled in full in July 2013.

36.2 subordinated bonds

On 31 October 2013, the Bank exercised it Early Redemption Option under the 7% Subordinated Bonds 2012-2019 prospectus issued in March 2009. All such Bonds in issued were redeemed at their nominal value of USD100 per bond.

37 provisions

	Group USD	Bank USD
Balance at 1 January 2012	3,010,366	1,733,104
Exchange difference	24,423	-
Balance at 31 December 2012	3,034,789	1,733,104
Balance at 1 January 2013	3,034,789	1,733,104
Provisions used during the year	(1,733,104)	(1,733,104)
Exchange difference	59,225	-
Balance at 31 December 2013	1,360,910	-
Non-current balance at 31 December 2012	3,034,789	1,733,104
Non-current balance at 31 December 2013	1,360,910	-

During the year a final judgement was delivered by the Court of Appeal in an EU jurisdiction in respect of proceedings initiated against the Bank by a Confirming Bank under a documentary credit. In its judgement, the Court confirmed an original judgement by the Court of First Instance delivered in July 2008 and ordered the Bank to pay the originally liquidated amount of USD1,733,104 together with additional interest up to settlement. In 2008 the Bank had recognised a provision for USD1,733,104 and subsequent to the decision by the Court of Appeal, a final settlement (inclusive of legal costs) of USD2,410,025 was made in favour of the defendants under Appeal. The excess settlement over the provision of USD676,921 was charged to the income statement.

Remaining provisions represent the best estimate of future economic cash flows which may be required as a result of a pending court case against a subsidiary. Management believes that adequate provisions have been made against this court case on the basis of legal advice as to the timing and amount of the expected future economic outflows.

38 accruals and deferred income

	Group 2013 USD	Group 2012 USD	Bank 2013 USD	Bank 2012 USD
Accrued interest	3,392,736	3,325,259	3,243,546	3,240,818
Other accruals	10,744,889	13,428,559	1,796,406	2,617,457
	14,137,625	16,753,818	5,039,952	5,858,275

Accrued interest includes an amount of USD229,306 (2012: Nil) payable to a Bank holding a significant investment in the Group.

In 2012, other accruals included an amount payable to a subsidiary company amounting to USD141,676.

39 equity

39.1 share capital

	2013 Shares of 50 US cents		2012 Shares of 50 US cents	
	Shares	USD	Shares	USD
Authorised				
Ordinary shares at 31 December	1,000,000,000	500,000,000	400,000,000	200,000,000
Issued and fully paid up				
Ordinary shares at 31 December	179,198,169	89,599,085	142,943,602	71,471,801

At an Extraordinary General Meeting held on 31 January 2013, the Authorised Share Capital of the Bank was increased to 1,000,000,000 Ordinary Shares of 50 US cents each.

	Ordinary Shares	
	2013 No of Shares	2012 No of Shares
On issue at 1 January	142,943,602	136,636,319
Conversion of loan granted by United Gulf Bank	36,254,567	-
Scrip dividend	-	841,386
Bonus issue of shares	-	5,465,897
On issue at 31 December	179,198,169	142,943,602

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

conversion of loan to equity

On 4 July 2013, the Bank received notice from United Gulf Bank B.S.C. of the latter's intention to exercise its option to convert a USD30 million loan including any interest accrued up to 29 July 2013, being the conversion date. This conversion is part of the multi-step transaction for which additional information is disclosed in note 47 to these financial statements.

39.2 share premium

The share premium represents the excess, net of issue costs, over the nominal value of shares, received through a number of capital raising initiatives including new equity from strategic shareholders, rights issues, scrip dividend and allotment of shares under the executive share option schemes. This reserve is non-distributable.

39.3 reserve for general banking risks

The reserve for general banking risks is a regulatory reserve created by virtue of Banking Rule 9 "Measures addressing credit risks arising from the assessment of the quality of asset portfolios of credit institutions authorised under the Banking Act 1994". Under this Rule, Banks are required to calculate a "Regulatory Allocation" which would be equal to their level of non-performing exposures (gross of any collateral but reduced for suspended interest) reduced by the specific impairment allowance as calculated and disclosed in these financial statements. An amount ranging between 2.5% and 5.0% of the "Regulatory Allocation" is then appropriated to the reserve for general banking risks.

39.4 currency translation reserve

The currency translation reserve consists of exchange differences arising on the translation of the net investment in foreign operations.

39.5 fair value reserve

This reserve consists of changes in the fair value of available-for-sale financial instruments, net of deferred tax.

39.6 other reserve

The reserve consists of amounts representing the difference between the net proceeds received on the sale of own shares net of the relative acquisition costs and the appropriation from Retained Earnings for any unforeseen future risks which may affect the Group's financial assets held-for-trading.

39.7 dividends

The following dividends were declared and paid by the Group:

	2013 USD	2012 USD
Dividends declared and paid during the year	5,279,120	2,738,034

The Board of Directors is not recommending the payment of a dividend for the financial year ended 31 December 2013.

39.8 availability of reserves for distribution

The Bank's retained earnings as at the financial reporting date include an amount of USD20,462,573 (2012: USD28,653,355) that is available for distribution.

40 contingent liabilities

40.1

	Group		Bank	
	2013 USD	2012 USD	2013 USD	2012 USD
Guarantee obligations incurred on behalf of third parties	25,658,655	73,271,995	61,549,236	82,152,480

40 contingent liabilities - continued

40.2 Global Trade Finance Limited

During 2008, the Bank disposed of an equity investment in Global Trade Finance Limited ("GTF"). As a result of the disposal of shares, the Bank provided State Bank of India with an indemnity for any future tax claims against GTF pertaining to the period prior to the disposal of the investment. The Bank's indemnity, which is given severally with that of the other seller EXIMBank as well as GTF, is capped at 10% of the sale consideration, that is INR216,810,000 and with the first INR50,000,000 of any future claims to be met separately by GTF. The indemnity specifically covers any claim/s which are made to State Bank of India within six years from 28 March 2008, representing the disposal date.

The probability that this claim may arise was assessed on 31 December 2013 in the light of a likelihood that such a claim may arise under a future assessment. The Bank deems that, albeit it is still possible that a claim may arise in the future, the probability of this occurring is remote. However, this event still represents a contingent liability since the indemnity constitutes a present obligation that does not however meet the criteria to be recognised as a provision. The maximum amount of this contingent liability remains INR216,810,000 (USD 3,503,632) at 31 December 2013 (2012: USD3,961,809).

40.3 other contingencies

On 9 January 2006 a judicial letter was filed against the Bank and a customer for the principal amount of USD841,582, plus legal interest. The party is claiming this amount by way of refund of a performance bond issued by a third party bank in his name and which performance bond was called upon by the Bank on behalf of its customer. The Bank is contesting this claim and the Directors do not expect the outcome of the action to have a material effect on the Group's and the Bank's financial statements. Up to the date of issue of these financial statements, no judicial proceedings have commenced against the Bank.

41 commitments

	Group		Bank	
	2013 USD	2012 USD	2013 USD	2012 USD
Undrawn credit facilities	127,412,163	94,386,362	127,412,163	94,386,362
Commitment to purchase assets	38,639,463	13,261,676	-	-
Factoring commitments	26,023	3,697	26,023	3,697
Documentary credits	14,344,255	23,172,410	14,344,255	23,172,410
Confirmed letters of credit	89,001,289	74,519,930	95,611,216	55,558,470
	269,423,193	205,344,075	237,393,657	173,120,939

The Bank has total sanctioned limits to customers amounting to USD660,245,479 (2012: USD 560,948,418).

In addition, as at the financial reporting date the Bank had open back-to-back documentary credits amounting to USD23,828,229 (2012: USD2,115,040).

42 cash and cash equivalents

Balances of cash and cash equivalents as shown on the statement of financial position are analysed as follows:

	Group		Bank	
	2013 USD	2012 USD	2013 USD	2012 USD
Balances with the Central Bank of Malta, Treasury Bills and cash	69,707,226	20,831,548	69,680,966	20,818,657
Loans and advances to banks	211,088,466	262,725,716	201,126,105	257,455,660
Amounts owed to banks	(287,045,669)	(155,797,240)	(287,045,669)	(155,797,240)
Cash and cash equivalents at end of year	(6,249,977)	127,760,024	(16,238,598)	122,477,077
Adjustment to reflect balances with contractual maturity of more than three months	(189,520,187)	(142,449,979)	(179,053,706)	(122,250,983)
Per statement of financial position	(195,770,164)	(14,689,955)	(195,292,304)	226,094
Analysed as follows:				
Balances with the Central Bank of Malta, Treasury Bills and cash	69,707,225	20,831,547	69,680,966	20,818,657
Loans and advances to banks	337,975,471	396,320,420	328,578,318	392,215,931
Amounts owed to banks	(603,452,860)	(431,841,922)	(593,551,588)	(412,808,494)
	(195,770,164)	(14,689,955)	(195,292,304)	226,094

43 operating leases

leases as lessee

The Group leases motor vehicles and office premises under operating lease arrangements. During the year ended 31 December 2013, operating lease charges amounting to USD916,421 (2012: USD1,040,999) were recognised as an expense in the income statement of the Group, while operating lease charges amounting to USD1,230,601 (2012: USD1,049,865) were recognised as an expense in the income statement of the Bank.

Non-cancellable operating lease rentals are payable as follows:

	Group		Bank	
	2013 USD	2012 USD	2013 USD	2012 USD
Less than one year	545,734	605,849	1,101,593	1,060,027
Between one and five years	40,868	240,802	604,266	1,474,754
	586,602	846,651	1,705,859	2,534,781

44 related parties

44.1 identity of related parties

The Bank has a related party relationship with its significant shareholders, subsidiaries, associates and jointly-controlled entities, directors and executive officers. For the purpose of this note, executive officers include the Group President who served as an Executive Director during the year under review.

44.2 transactions with key management personnel

Directors of the Group control 6 per cent of the voting shares of the Bank and the Group respectively. There were no loans and advances to Directors as at 31 December 2013 and as at 31 December 2012.

44 *related parties - continued*

On 31 December 2013, an amount of USD526,270 (2012: USD311,734) was receivable from executive officers. Interest earned from executive officers during the financial year ending 31 December 2013 amounted to USD1,021 (2012: USD300).

Deposits by Directors as at 31 December 2013 amounted to USD317,835 (2012: USD148,825) and are included in "amounts owed to customers". Interest paid to Directors during the financial year ending 31 December 2013 amounted to USD3,699 (2012: no interest was paid during the year).

Deposits by Executive Officers as at 31 December 2013 amounted to USD320,542 (2012: USD305,719) and are included in "amounts owed to customers". Interest paid to Executive Officers during the financial year ending 31 December 2013 amounted to USD9,098 (2012: USD9,374). Furthermore, Guarantees in favour of Executive Officers as at 31 December 2013 amounted to USD3,212 (2012: USD3,072).

During the financial year ended 31 December 2013, the Bank redeemed the 7% and 4.25% bonds. Gross interest paid to Directors on these bonds during the year was the equivalent of USD4,596 (2012: USD4,514). Gross interest paid to Executive Officers on these bonds during the year was the equivalent of USD2,946 (2012: USD2,680).

In addition to their salaries, the Group also provides non-cash benefits to Directors and Executive Officers. Directors' compensations are disclosed in note 15.2 to these financial statements. Total remuneration payable to executive officers amounting to USD1,874,801 (2012: USD1,784,941 is included in "personnel expenses" (see note 15.2).

As at 31 December 2013, executive officers had a total of 1,019,200 (2012: 1,029,808) unexercised share options.

44.3 other related party transactions

Amounts equivalent to USD9,568 (2012: USD53,096) and USD134,567 (2012: USD133,716) were charged by a shareholding company and Directors respectively for travelling and accommodation expenses in connection with the Board and Board Committee meetings of the Bank. Consultancy and professional fees amounting to USD526,199 (2012: USD664,602) were charged by companies owned, directly and indirectly by the Bank's Directors, former Directors and key management personnel.

Amounts equivalent to USD17,007 were charged by an entity holding a significant shareholding in the Bank for travelling and accommodation expenses in connection with meetings of the Bank.

44.4 related party balances

On 31 December 2013 shareholders having significant influence did not have any deposits with the Bank (2012: Nil).

Information on amounts due to/by subsidiary companies, associated companies and jointly-controlled entities are set out in notes 23, 27, 26, 33, 34 and 38 to these financial statements. Amounts due to/by Key Management Personnel are disclosed in note 44.2 above.

45 financial commitments

For 2014, the Board approved capital injections of up to USD33 million to be invested in new factoring joint ventures as well as to provide additional support to existing entities by way of additional capital.

46 capital commitments

At financial reporting date the Group had the following capital commitments:

Group	2013 USD	2012 USD
Authorised and contracted for	320,187	1,215,723
	320,187	1,215,723

Group capital commitments relate to the Group's head office in St Julian's, Malta.

47 changes to controlling shareholding

FIMBank p.l.c. is an affiliated company of United Gulf Bank B.S.C. ("UGB"), Bahrain, and Burgan Bank S.A.K. ("Burgan"), Kuwait, two entities which are in turn ultimately controlled by Kuwait Investments Projects (Holding) ("KIPCO"). UGB is licensed and supervised by the Central Bank of Bahrain whilst Burgan is licensed and supervised by the Central Bank of Kuwait.

On 31 January 2013 the Bank held an extraordinary general meeting of shareholders which approved an offer made by Burgan Bank , and UGB, providing for the following ("the multi-step transaction"):

a. The acquisition by Burgan Bank of 35,000,000 listed ordinary shares in the Bank pledged by Massaleh Investments K.S.C.C. ("Massaleh") in favour of Burgan Bank followed by an immediate acquisition by UGB of approximately additional 17,950,000 listed ordinary shares in the Bank from Massaleh pursuant to a share transfer between the parties (the "Share Transfers");

b. UGB to grant a USD60,000,000 convertible loan to the Bank, divided into two tranches of USD30,000,000 each. Subject to drawdown, UGB to be given the option to convert, in full or in part, the first tranche of the loan into new ordinary shares of USD0.50 each to be issued by the Bank at a conversion price of USD0.83c per share. Also subject to drawdown, UGB to be given the option to convert, in full or in part, the second tranche of the loan into new ordinary shares of USD0.50 each to be issued by the Bank at a conversion price equivalent to the book value of the ordinary shares of the Bank as at the date of the latest audited financial statements, capped at USD0.90c per share;

c. As part of this process, UGB and Burgan Bank will also seek to increase their combined shareholding in the Bank through a bid to all the shareholders of the Bank for all of their shares; and

d. UGB and Burgan Bank will participate in and support a USD100,000,000 rights issue of shares to be made by the Bank at a price and with the timing yet to be determined.

On 29 May and 31 May 2013 respectively, the Malta Financial Services Authority informed the Bank that it has no objection to the change in shareholding in the Bank and the remaining steps of the multi-step transaction. On 20 June 2013 the Bank announced that the first leg (share transfers between Massaleh, Burgan Bank and UGB) in the multi-step transaction was concluded and as a result 52,948,867 ordinary shares were transferred in the amount of 35,000,000 shares to Burgan Bank and 17,948,867 shares to UGB respectively.

Also on 20 June 2013 the Bank and UGB initiated the second leg by signing the USD60 million convertible loan agreement, of which the first tranche of USD30 million was drawn and converted to equity on 29 July 2013 through the issue of 36,254,567 ordinary shares to UGB.

On 9 December 2013, Burgan Bank and UGB launched the third leg of the multi-step transaction, namely a joint voluntary bid to all shareholders and as disclosed in note 48, on 28 January 2014 FIMBank announced that as a result of this bid the two entities increased their aggregate shareholding in the Bank to 80.14%, held by UGB as to 60.61% and Burgan Bank as to 19.53% respectively.

As further announced on 29 January 2014, FIMBank has requested the Listing Authority's approval to remain listed on the Malta Stock Exchange ("MSE") notwithstanding that the proportion of the class of ordinary shares admitted to listing on the MSE in the hands of the public has fallen below the required minimum of 25% of the total issued share capital.

48 subsequent events

a. On 28 January 2014, FIMBank announced that as a result of a joint voluntary bid launched on 9 December 2013, United Gulf Bank and Burgan Bank increased their aggregate shareholding in FIMBank to 80.14%, with UGB increasing its share holding to 60.61% and Burgan remaining at 19.53%. Both entities are ultimately controlled by Kuwait Investments Projects (Holding).

b. On 20 February 2014, FIMBank also announced that with effect from 18 February 2014, the Group acquired the 40% shareholding held by Joint Stock Bank Transcapitalbank in CIS Factors Holding B.V. At the date of this report the Group holds 80% of the company's shares and as a result of this transaction the Group now has control over the entity and will change the measurement of this investment from the "equity" method to a "line-by-line" consolidation.

48 *subsequent events - continued*

c. On 2 January 2014, FIMBank also announced that it has entered into an agreement with the current shareholders of PRVI Faktor, a Slovenia factoring services and finance company with operations in Central Eastern Europe and South East Europe, for an acquisition of 40% of the participating interests of the Company. At the date of this report, completion of the agreement is still subject to competition clearance, regulatory consents and the satisfaction of certain conditions precedent.

49 comparative information

Certain comparative amounts have been reclassified to conform with the current year's presentation.

statement by the directors pursuant to listing rule 5.68

For the year ended 31 December 2013

We, the undersigned, declare that to the best of our knowledge, the financial statements set out on pages 36 to 119 prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and its subsidiaries included in the consolidation taken as a whole and that this report includes a fair review of the development and performance of the business and the position of the Bank and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board of Directors on 11 March 2014 by:

John C. Grech
Chairman

Masaud M. J. Hayat
Vice Chairman

report of the independent auditors

to the members of FIMBank p.l.c.

report on the financial statements

We have audited the financial statements of FIMBank p.l.c. (the "Bank") and of the Group of which the Bank is the parent, as set out on pages 36 to 119, which comprise the statements of financial position as at 31 December 2013 and the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

directors' responsibility for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 35, the directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation. They are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 179 of the Act, and Article 31 of the Banking Act, 1994 (Chapter 371, Laws of Malta), and may not be appropriate for any other purpose.

In addition, we read the other information contained in the Annual Report 2013 and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent material misstatements of fact or material inconsistencies with the financial statements.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the Group's and the Bank's financial position as at 31 December 2013, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and

- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta), the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation.

report on other legal and regulatory requirements

Matters on which we are required to report by the Banking Act, 1994 (Chapter 371, Laws of Malta)

In our opinion:

- we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- proper books of account have been kept by the Bank so far as appears from our examination thereof;
- the Bank's financial statements are in agreement with the books of account; and
- to the best of our knowledge and belief and, on the basis of the explanations given to us, the financial statements give the information required by law in force in the manner so required.

Matters on which we are required to report by exception by the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), other than those reported upon above

We have nothing to report in respect of the following matters where the Act requires us to report to you if, in our opinion:

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- certain disclosures of directors' remuneration specified by the Act are not made.

Report required by Listing Rule 5.98 issued by the Listing Authority in Malta on the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance (the "Principles") outlined in Appendix 5.1 to Chapter 5 (Continuing Obligations) of the Listing Rules (the "Appendix")

Listing Rule 5.97 requires an Issuer whose securities are admitted to trading on a Regulated Market operating in Malta to prepare a corporate governance statement. In addition, as an Issuer registered in Malta, Listing Rule 5.94 requires that the Bank endeavours to adopt the Principles and to prepare a report explaining how it has complied with the provisions of the Appendix.

Our responsibility as independent auditors of the Bank, is laid down by Listing Rule 5.98, which requires us to issue a report on the Directors' Statement of Compliance with the Principles, which is set out on pages 24 to 32.

We review the Directors' Statement of Compliance, and report as to whether this Statement provides the disclosures required by Listing Rule 5.97. We are not required to, and we do not, consider whether the Board's statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risks and control procedures, nor on the ability of the Group to continue in operational existence.

In our opinion, the Directors' Statement of Compliance set out on pages 24 to 32 provides the disclosures required by Listing Rule 5.97 issued by the Listing Authority of Malta.

Hilary Galea-Lauri (Partner) for and on behalf of

KPMG
Registered Auditors
Portico Building
Marina Street
Pieta` PTA 9044
Malta

11 March 2014

schedule I

income statement

Five Year Summary

Bank

	2013 USD	2012 USD	2011 USD	2010 USD	2009 USD
Interest income	25,308,593	21,815,348	20,990,805	14,300,606	13,321,974
Interest expense	(18,318,032)	(16,288,411)	(15,080,538)	(9,183,774)	(9,047,203)
Net interest income	6,990,561	5,526,937	5,910,267	5,116,832	4,274,771
Fee and commission income	16,004,841	15,543,409	14,629,402	15,237,631	14,925,150
Fee and commission expense	(1,339,461)	(1,304,577)	(1,429,800)	(1,387,338)	(1,556,711)
Net fee and commission income	14,665,380	14,238,832	13,199,602	13,850,293	13,368,439
Net trading income/(expense)	1,992,071	3,885,844	2,901,446	2,290,793	5,513,626
Dividend income	691	699	-	320	604
Profit on disposal of available-for-sale investment	-	-	-	-	46,956
Profit on disposal of associate	-	-	-	-	-
Other operating income	25,591	5,290	32,322	31,572	18,013
Operating income before net impairment losses	23,674,294	23,657,602	22,043,637	21,289,810	23,222,409
Net impairment loss/reversal on financial assets	(6,709,515)	(1,690,609)	328,517	(1,493,233)	(4,712,221)
Operating income	16,964,779	21,966,993	22,372,154	19,796,577	18,510,188
Administrative expenses	(20,552,916)	(19,730,475)	(20,681,648)	(16,900,731)	(16,761,113)
Depreciation and amortisation	(741,316)	(666,464)	(671,744)	(731,585)	(707,771)
Provision	(676,921)	-	-	-	-
Total operating expenses	(21,971,153)	(20,396,939)	(21,353,392)	(17,632,316)	(17,468,884)
Profit before tax	(5,006,374)	1,570,054	1,018,762	2,164,261	1,041,304
Taxation	2,175,605	(41,902)	820,472	465,082	31,181
(Loss)/profit for the year	(2,830,769)	1,528,152	1,839,234	2,629,343	1,072,485

schedule I I

statement of financial position

Five Year Summary

Bank

	2013 USD	2012 USD	2011 USD	2010 USD	2009 USD
ASSETS					
Balances with the Central Bank of Malta, Treasury Bills and cash	69,680,966	20,818,657	11,202,132	9,813,667	8,833,204
Financial assets at fair value through profit or loss	18,583,480	56,528,905	43,172,482	44,727,571	24,280,356
Loans and advances to banks	328,578,318	392,215,931	410,335,778	322,642,839	315,235,568
Loans and advances to customers	593,801,221	476,424,777	417,827,014	367,218,263	255,714,115
Investments available-for-sale	26,475,502	92,040	92,040	161,791	39,595
Investments held-to-maturity	6,783,621	-	-	-	-
Investments in equity accounted investees	6,013,425	6,013,425	3,213,425	3,213,425	2,013,425
Investments in subsidiaries	79,234,301	78,234,301	73,481,359	64,234,312	53,412,291
Property and equipment	2,070,762	2,180,246	1,882,113	1,814,489	2,241,239
Intangible assets	715,513	622,001	653,646	740,651	549,270
Current tax assets	2,064,316	1,416,224	448,583	1,558,921	508,275
Deferred tax	6,494,506	4,456,996	4,466,875	2,325,553	1,683,183
Other assets	3,984,761	2,581,299	2,773,613	2,411,528	1,870,871
Prepayments and accrued income	2,635,135	1,405,124	4,412,473	2,540,034	2,110,959
Total assets	1,147,115,827	1,042,989,926	973,961,533	823,403,044	668,492,351
LIABILITIES AND EQUITY					
Liabilities					
Financial liabilities at fair value through profit or loss	506,477	791,622	4,722,154	2,425,331	1,152,782
Amounts owed to banks	593,551,588	412,808,494	358,274,318	329,976,491	227,151,376
Amounts owed to customers	414,846,277	427,387,411	408,123,600	285,048,980	271,532,067
Debt securities in issue	-	43,141,189	42,346,073	42,853,818	4,931,904
Subordinated debt	-	40,122,813	41,162,938	43,789,227	47,062,828
Provisions	-	1,733,104	1,733,104	1,733,104	1,733,104
Other liabilities	368,015	409,346	94,392	182,135	113,806
Accruals and deferred income	5,039,952	5,858,275	6,265,596	5,156,968	4,101,948
	1,014,312,309	932,252,254	862,722,175	711,166,054	557,779,815
Equity					
Share capital	89,599,085	71,471,801	68,318,160	67,976,317	67,713,477
Share premium	19,820,564	8,028,945	10,474,390	10,235,339	9,986,355
Reserve for general banking risks	80,893	-	-	-	-
Fair value reserve	159,362	(97,470)	(97,470)	(51,665)	-
Other reserve	2,681,041	2,681,041	2,681,041	2,681,041	2,681,041
Retained earnings	20,462,573	28,653,355	29,863,237	31,395,958	30,331,663
	132,803,518	110,737,672	111,239,358	112,236,990	110,712,536
Total liabilities and equity	1,147,115,827	1,042,989,926	973,961,533	823,403,044	668,492,351
MEMORANDUM ITEMS					
Contingent liabilities	61,549,236	82,152,480	72,685,336	43,362,797	27,021,667
Commitments	237,393,657	173,120,939	116,747,046	170,860,031	167,848,294

schedule I I I

cash flow statement

Five Year Summary

Bank

	2013 USD	2012 USD	2011 USD	2010 USD	2009 USD
Net cash flows from operating activities	(49,159,379)	79,368,658	44,432,606	(102,960,640)	(18,242,129)
Cash flows from investing activities					
Net payments to acquire property and equipment	(434,749)	(776,241)	(548,275)	(153,597)	(1,189,397)
Payments to acquire intangible assets	(292,256)	(176,797)	(104,554)	(342,619)	(87,759)
Proceeds from disposal of property and equipment	7,244	6,806	12,326	-	-
Purchase of shares in equity accounted investees	-	(2,800,000)	-	(1,200,000)	-
Purchase of shares in subsidiary companies	(1,000,000)	(4,752,941)	(8,705,959)	(10,822,021)	(4,017,625)
Purchase of other investment	(25,988,335)	-	(719)	-	-
Proceeds from other investments	-	-	-	-	69,151
Receipt of dividend	691	699	-	320	604
Cash flows (used in)/generated from investing activities	(27,707,405)	(8,498,474)	(9,347,181)	(12,517,917)	(5,225,026)
Cash flows from financing activities					
Proceeds from issue of share capital	29,918,903	-	-	23,853	19,462
Net (repayment)/issue of debt securities	(44,263,812)	-	-	38,464,494	4,931,904
(Repayment)/proceeds from subordinated debt	(42,224,862)	(1,714,285)	(1,714,285)	(857,143)	39,061,687
Dividends paid	(5,279,120)	(2,029,838)	(2,791,061)	(1,077,077)	(2,441,831)
Net cash flows (used in)/from financing activities	(61,848,891)	(3,744,123)	(4,505,346)	36,554,127	41,571,222
(Decrease)/increase in cash and cash equivalents	(138,715,675)	67,126,061	30,580,079	(78,924,430)	18,104,067
Cash and cash equivalents at beginning of year	122,477,077	55,351,016	24,770,937	103,695,367	85,591,300
Cash and cash equivalents at end of year	(16,238,598)	122,477,077	55,351,016	24,770,937	103,695,367

schedule I V

accounting ratios

Five Year Summary

Bank	2013 %	2012 %	2011 %	2010 %	2009 %
Net interest income and other operating income to total assets	2.47	2.39	2.41	2.75	3.71
Operating expenses to total assets	2.17	1.96	2.19	2.14	2.61
(Loss)/profit before tax to total assets	(0.49)	0.15	0.10	0.26	0.16
Pre-tax return on capital employed	(3.77)	1.42	0.92	1.93	0.94
(Loss)/profit after tax to equity	(2.13)	1.38	1.65	2.34	0.97

	2013	2012	2011	2010	2009
Weighted average number of shares in issue (000's)	158,439	142,605	136,383	135,753	135,231
Net assets per share (US cents)*	83.82	77.65	78.58	79.49	78.70
Basic earnings per share (US cents) *					
Basic	(1.79)	1.07	1.30	1.86	0.76
Diluted	(1.78)	1.07	1.30	1.86	0.90

* Ratios for 2009 to 2011 have been restated to reflect the number of shares in issue as a result of the 2012 bonus issue of shares

additional regulatory disclosures (pillar 3)

in terms of Banking Rule (BR/07) "Publication of annual report and audited financial statements of credit institutions authorised under the Banking Act, 1994"

For the year ended 31 December 2013

1. introduction

1.1 background

This document comprises the Basel II Pillar 3 Regulatory Disclosures required by BR/07 as at 31 December 2013 for FIMBank p.l.c. (the "Bank") and its subsidiary undertakings (the "Group").
The Basel II framework was implemented in the European Union through the Capital Requirement Directive ("CRD"). The framework is based around three Pillars;

i. Pillar 1 which caters for the minimum capital requirements which define the rules for calculation of credit, market and operational risk;

ii. Pillar 2 requires banks to undertake an Internal Capital Adequacy Assessment Process (ICAAP) for risks not covered under Pillar 1; and

iii. Pillar 3 complements the minimum capital requirements under Pillar 1 and the ICAAP under Pillar 2 by providing key information on the Group's risk exposures, the risk management process to mitigate these risks and the Group's capital adequacy calculation. The disclosure requirements under Pillar 3 are of both quantitative and qualitative nature and are provided at a consolidated level.

1.2 basis and frequency of disclosures

These disclosures are based on 31 December 2013 year-end data

Given the size and complexity of the Group's operations, the Pillar 3 disclosures are updated on an annual basis. However, any material change in the approaches or permissions used to calculate capital requirements will be disclosed as it arises.

1.3 publication and verification

The Pillar 3 disclosures have been reviewed by the Bank's senior management and have been subject to the review of KPMG so as to ensure compliance with the requirements laid out in BR/07.

The Pillar 3 disclosure document is also published on the Bank's corporate website. This can be found at www.fimbank.com.

2. risk governance

2.1 FIMBank risk management function

The Board is ultimately responsible for the identification and evaluation of key risks applicable to the different areas of the business of the Group, and for ensuring that proper systems of internal control are in place. The Board has delegated to Management the task of creating an effective control environment to the highest possible standards and in line with the Bank's Articles of Association also established the following committees in order to assist Directors in the oversight of its functions:

- Executive Committee
- Audit Committee
- Board Risk Committee
- Asset-Liability Committee
- Compensation Committee
- Credit Committee
- Governance Committee

2.2 board and senior management committees responsibilities

Risk, capital and liquidity management strategies are the responsibilities of the Board Risk Committee, the Credit Committee and the Asset-Liability Committee. Details of the composition and responsibilities of these Committees are laid out in the Statement of Compliance with the Principles of Good Governance Section in pages 24 and 32 of the Annual Report.

3. scope of application of applicable consolidated requirements

3.1 overall scoping

As disclosed in the Directors Report in page 17 of the Annual Report, the FIMBank Group (the "Group") is composed of FIMBank p.l.c. (the "Bank"), a credit institution licensed under the Banking Act, 1994, and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI") and FIMFactors B.V. ("FIMFactors"). LFC is itself a parent of a number of subsidiaries as set out in note 27.3 to the Financial Statements, whilst FIMFactors is the parent of a wholly owned subsidiary Menafactors Limited ("Menafactors"). The Group also holds a significant interest in the associated entities, namely, The Egyptian Company for Factoring S.A.E. ("Egypt Factors" - 40% holding), CIS Factors Holdings B.V. ("CIS Factors" – 80% holding), India Factoring and Finance Solutions Private Limited ("India Factoring" - 49% holding) and Levant Factors S.A.L. ("Levant Factors" - 50% holding) and BRASILFACTORS S.A. ("BRASILFACTORS" – 40% holding).

Both FIMBank p.l.c. and the Group are supervised on a "solo" and "consolidated" basis in terms of Banking Rule 10 "Supervision on a Consolidated Basis of Credit Institutions authorised under the Banking Act 1994".

3.2 basis of consolidation

At 31 December 2013, all Group entities were consolidated as outlined below.

London Forfaiting Company Limited ("LFC")

LFC, a wholly owned subsidiary, is registered in the United Kingdom as a private limited liability company. It was founded in 1984 and provides international trade finance services (with particular focus on forfaiting business) through an international network of offices. Some of these offices have distinct corporate status in the various jurisdictions where they are providing the service. LFC's main activities are the purchasing of bills of exchange, promissory notes, deferred payment letters of credit and transferable financial loans from exporters or their banks and subsequently selling these instruments to customers or other institutions.

LFC is consolidated within the Group on a line-by-line basis.

FIMFactors B.V. ("FIMFactors")

FIMFactors B.V., a wholly owned subsidiary registered in the Netherlands, is the corporate vehicle for FIMBank's holdings in factoring joint ventures and associated companies. At 31 December 2013, FIMFactors holds the Group's investments in Menafactors, CIS Factors, India Factoring and BRASILFACTORS.

FIMFactors is consolidated within the Group on a line-by-line basis.

Menafactors Limited ("Menafactors")

Menafactors, a wholly owned subsidiary, is incorporated in the United Arab Emirates and is licensed by the Dubai Financial Services Authority to provide international factoring and forfaiting services in the Gulf and MENA region. Menafactors also holds the Group's investment in Levant Factors as set out in the Directors Report of the Annual Report and note 26 to the Financial Statements.

Menafactors is consolidated within the Group on a line-by-line basis while the results of its associate, Levant Factors, a factoring company incorporated in Beirut, Lebanon, are included in Menafactors and in the Group, using the "equity method" of accounting. This investment is not deducted from the Group's own funds.

FIM Business Solutions Limited ("FBS") and FIM Property Investment Limited ("FPI")

FBS and FPI are two entities specifically set-up to provide ancillary services to other Group entities and/or third parties.

FBS, a wholly owned subsidiary registered in Malta, has as its primary purpose the provision of information technology and support services to the Group and its associated companies, to correspondent banks as well as to third party factoring services providers.

FPI, a wholly owned subsidiary registered in Malta owns and manages the FIMBank's head office in Malta. FIM Property Investment Limited is responsible for the day-to-day management of the building and leasing, if any, of space for commercial purposes.

Both FBS and FPI are consolidated to the Group on a line-by-line basis.

BRASILFACTORS S.A. ("BRASILFACTORS")

BRASILFACTORS is a company incorporated in São Paolo, Brazil, focusing on factoring services and forfaiting, with small and medium-sized companies being its target market. The Group has a 40% holding in the company, with the other shareholders being Banco Industrial e Comercial S.A. ("BICBANCO") and the International Finance Corporation ("IFC"), each holding 40% and 20% respectively.

BRASILFACTORS is included to the Group using the "equity method" of accounting and the investment is not deducted from the Group's Own Funds.

CIS Factors Holdings B.V. ("CIS Factors")

CIS Factors is a company set-up under the laws of the Netherlands and serves as an investment vehicle for a factoring company incorporated under the laws of the Russian Federation and which provides factoring services in Russia. The Group owns 80% of the company. The remaining 20% shareholding is held by the International Finance Corporation ("IFC").

CIS Factors is included to the Group using the "equity method" of accounting and the investment is not deducted from the Group's Own Funds.

India Factoring and Finance Solutions Private Limited ("India Factoring")

India Factoring is a company incorporated under Indian law and provides factoring, forfaiting and trade finance related activities in India. The Group holds 49% of the Company's shareholding. The other shareholders are Punjab National Bank (30%), Banca IFIS (10%), Blend Financial Services Limited (1%) and India Factoring Employee Welfare Trust (10%). India Factoring is regulated by the Reserve Bank of India.

India Factoring is included to the Group using the "equity method" of accounting and the investment is deducted from the Group's Own Funds.

The Egyptian Company for Factoring S.A.E. (“Egypt Factors”)

The Bank also holds a 40% equity investment in Egypt Factors, a company incorporated in Egypt, where the other shareholders are Commercial International Bank (Egypt) holding 40% and International Finance Corporation (“IFC”) holding 20% of the shares. Egypt Factors is active in providing international factoring and forfaiting services to Egyptian and other Middle Eastern exporting companies.

Egypt Factors is included to the Group using the “equity method” of accounting and the investment is deducted from the Group’s Own Funds.

4. identification of risks

The Group identified the following Pillar 1 and Pillar 2 risks as being significant and manages such risks as detailed below;

a. Credit risk and Concentration risk
b. Operational risk – incorporating legal, compliance and insurance risk;
c. Market risk – incorporating foreign currency risk, interest rate risk and other price risk;
d. Liquidity risk;
e. Reputational risk;
f. Information Technology risk
g. Settlement risk; and
h. Strategic and business risk

In the following sections we lay out the manner in which the Group manages and mitigates the above mentioned risks and we also indicate whether such risks are allocated a capital charge under Pillar 1 and Pillar 2.

4.1 pillar 1 risks for which a capital allocation is made

4.1.1 *credit risk*

Credit risk is the risk that one party to a financial transaction might fail to discharge an obligation and cause the other party to incur a financial loss. The Group finances international trade in many countries worldwide, especially emerging markets, which in turn entails an exposure to sovereign, bank and corporate credit risk respectively. Credit risk is not only akin to loans but also to other on- and off- balance sheet exposures such as letters of credit, guarantees, acceptances and money market operations.

4.1.1.1 *minimum capital requirements under pillar 1: credit risk*

The Group calculates the overall minimum capital requirement for credit risk using the Standardised Approach to credit risk as defined in BR/04 “Capital Requirements of Credit Institutions Authorised under the Banking Act 1994 “ expressed as 8% of the risk weighted exposure amounts for each of the Standardised Credit Risk Exposure Classes. The table below illustrates the capital requirement for credit risk for 2013.

	Notional Risk Weight	Minimum Capital Requirement (8%)
	2013	2013
	USD	USD
Type of exposure:		
Sovereign	65,449,484	5,235,959
Administrative bodies and non-commercial undertakings	27,728,347	2,218,268
Institutions (Banks)	259,144,541	20,731,563
Corporates	504,634,554	40,370,764
Retail	861,186	68,895
Retail secured by real estate	3,255,175	260,414
Collective investments undertakings	-	-
Other items	92,048,971	7,363,918
	953,122,258	76,249,781

4.1.1.2 credit risk management principles and strategy

Strict credit assessment and control procedures are in place in order to monitor credit exposures. The Credit Committee is responsible for overseeing the Group's credit policy and risk, for approving individual limits for banks and corporates within its delegated parameters of authority as set out in the Statement of Compliance with the Principles of Good Corporate Governance in page 134 of the Annual Report.

All on- and off- balance sheet exposures are approved after a thorough review of the counterparties' credit worthiness. This is done by primarily evaluating the risk rating of the counterparty by reference to established Rating Agencies. In the absence of this and when it is deemed appropriate to do so, review is also done by means of other assessment criteria, including but not limited to, financial statement review.

The Group also ensures that it has a reasonable mix of loans to customers. This diversification of credit among different economic sectors is a policy adopted by the Group to control such risks. The Group also monitors its risk on balances held with other banks by establishing bank and country limits. The risks associated with off- balance sheet assets and liabilities arise from the normal course of banking operations. In the case of risks associated with inter-bank participants under letters of credit, the Group exercises the same credit controls as those applied to on-balance sheet risks.

The Group maintains a prudent provisioning policy in accordance with the applicable laws and regulations to ensure that losses are immediately recognised in the income statements. Efforts at recovering losses incurred in past financial periods are continuous. To this purpose, legal proceedings have been undertaken in the courts of competent jurisdiction.

4.1.1.3 credit risk limit setting and monitoring

Over the years, the Group has established policies requiring limits on counterparties, countries as well as specific sectors, and industries, thus ensuring a more diversified on- and off- balance sheet lending portfolios.

Single-name counterparty limits follow the prudential rules adopted throughout European banking legislation (in Malta BR/02), which apply maximum limits for large exposures. A large exposure is defined as a consolidated exposure to a single entity or an economic group that exceeds 10% of a bank's regulatory capital (Tier 1 plus Tier 2). The maximum limit for non-institutions is 25% of regulatory capital. The maximum limit for institutions is determined by the Group and shall not exceed 100% of regulatory capital. It must also be noted that a further prudential rule-of-thumb followed by the Group on large exposures is that initial lending limits for new counterparties are usually set at a much lower level than the group's legal lending limit. These limits might either remain at the original level, based on ongoing credit research on the name, or build up towards the legal lending limit in a gradual manner, as the knowledge of the counterparty by the bank consolidates through time.

Concentration risk by geographical region/country is monitored by the Executive Committee, which set up a specific policy for country risk concentration. This policy defines a ceiling – in terms of percentage of the Group's Own Funds - for each individual country exposure, which is linked to the rating granted to each country by international rating agencies. The ceiling increases (up to a maximum of 100% of the Bank's Own Funds for investment grade countries) with the rating of the country. As for single-name limits, country limits do not automatically increase to the pre-defined ceiling, as the initial assessment is based on the country's specific economic, financial and political risk conditions.

Concentration risk by sector is mitigated by the particular nature of the Group's business, i.e. a specialised trade finance institution with a focus on Emerging Markets. Most of the bank's exposure relates to banks' risk, located in a number of geographies and hence diversified by virtue of the country limit policy specified in the above paragraph, which usually guarantee/confirm the payment risk of the importers under international trade finance operations. Exposure to particular sectors is monitored indirectly through monitoring of the trends of the underlying commodities. Exposure to corporate entities in many cases consists of bridge financing towards a sale of goods/commodities eventually covered by a bank guarantee (provided by the bank of the ultimate buyer of the goods). Other specialised sectors of exposure, in particular shipping pre-demolition finance, which are collateralised through a mortgage on each vessel financed, are assigned an overall sector limit by the Bank's Risk Committee, which is reviewed regularly.

4.1.1.4 *collateral and credit risk mitigation*

In addition, the Group also makes use of different types of collaterals, all aimed at mitigating credit risk within on- and off- balance sheet credit facilities.

main types of collateral and concentrations in credit risk mitigations

Exposures to both financial institutions and corporate clients are typically secured either by property (including shipping vessels), cash collateral, credit insurance cover, personal or bank guarantees or by pledged goods. With regards to Loans and Advances to Banks and Customers, shipping vessels, personal guarantees and insurance policies held with insurers rated below Fitch A, are not considered to be eligible collateral for regulatory purposes.

The collateral is reviewed periodically by Management both in terms of exposure to the Bank and the Group and to ensure the validity and enforceability of the security taken. Investment securities are not usually held as collateral, and no such collateral was held at 31 December 2013. The table below provides an estimate of the fair value of collateral eligible for regulatory purposes and other security enhancements held against the Group's Lending portfolio:

	Loans and Advances to Banks 2013 USD	Loans and Advances to Customers 2013 USD	Commitments and Contingent Liabilities 2013 USD
Against neither past due nor impaired			
Cash or quasi cash	39,016,438	32,559,132	20,084,310
Property	-	-	-
Other	2,500,000	33,891,604	1,326,833
Against impaired			
Cash or quasi cash	46,952	184,436	-
Property	-	-	-
Other	-	-	-
	41,563,390	66,635,172	21,411,143

As FIMBank is mainly engaged in structured trade finance related to basic commodities (oil, steel, sugar, rice, etc.), the value of goods representing collateral for such facilities can be easily determined by monitoring the market prices of such commodities. Screen prices are readily available on several commodities exchanges and monitored on a daily basis by Risk Management. Collateral management is performed on FIMBank's behalf by specialised companies (SGS, Bureau Veritas, Control Union, etc.) appointed ad hoc for a particular transaction. Collateral management agreements are usually tri-partite agreements (between FIMBank, the borrower and the collateral manager) and give FIMBank title to the goods held as collateral.

4.1.1.5 exposure to credit risk

The table below illustrates the total amount of net exposures as at 31 December 2013 prior to taking into account the effects of credit risk mitigation and the average for the financial year ending 31 December 2013:

Type of exposure	Balance at 31 December 2013	Average for the year ended 31 December 2013
	USD	USD
Balances with the Central Bank of Malta and Treasury Bills	69,667,446	104,161,666
Trading assets	272,831,977	244,133,236
Financial assets designated at fair value through profit or loss	17,700,000	38,960,765
Loans and advances to banks	337,975,471	328,903,360
Loans and advances to customers	417,469,537	365,777,748
Investments available-for-sale	26,476,204	4,788,447
Investments held-to-maturity	6,783,621	1,128,390
Investments in equity accounted investees	22,276,790	24,915,896

credit risk exposure by region

The geographic distribution of the Group exposures as at 31 December 2013, broken down in significant areas by the same exposure classes shown in the previous table is set out in note 4 to the Financial Statements.

credit risk exposure by sector

Note 4.2 to the Financial Statements also sets out the distribution of the Group's exposures as at 31 December 2013 by sector.

credit risk exposures by maturity

The residual maturity breakdown of the Group's exposures as at 31 December 2013, broken down by exposure classes is set out in note 4.3 to the Financial Statements.

4.1.1.6 credit risk weights and ECAIs

The Group classifies its on- and off- balance sheet exposures under the following "exposure classes" (as defined in BR/04 "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994"):

a. Sovereign
b. Administrative bodies and non-commercial undertakings
c. Institutions (Banks)
d. Corporates
e. Retail
f. Retail secured by real estate
g. Collective investments undertakings
h. Other items

When calculating the risk-weighted exposure amounts for each of the above exposure classes in accordance with the Standardised Approach to credit risk as detailed in BR/04, the Group applies the ratings of the following External Credit Assessment Institutions ("ECAIs") in determining the appropriate credit quality step:

a. Fitch Ratings;
b. Moody's; or
c. Standard & Poor's.

Fitch Ratings is used as the primary reference agency and if a particular exposure is not rated by Fitch Ratings reference would be made to the lower rating between Moody's or Standard & Poor's.

The Group complies with the standard association of exposure ratings to credit quality steps as detailed in BR/04. At 31 December 2013, the Group carried the following exposures:

Exposure class	Credit quality step	Exposure values USD	Credit risk mitigation USD	Net exposure USD
Sovereign	0%	72,460,360	1,347,305	71,113,055
	20%	2,606	-	2,606
	50%	11,226,833	1,326,833	9,900,000
	100%	60,240,967	-	60,240,967
	150%	-	-	-
		143,930,766	2,674,138	141,256,628
Administrative bodies and non-commercial undertakings	100%	44,273,225	-	44,273,225
		44,273,225	-	44,273,225
Institutions (Banks)	0%	50,052,033	50,052,033	-
	20%	161,205,153	-	161,205,153
	50%	153,424,662	2,500,000	150,924,662
	100%	262,403,872	-	262,403,872
		627,085,720	52,552,033	574,533,687
Corporates	0%	33,352,419	32,434,440	917,979
	20%	483,993	-	483,993
	50%	47,720,601	33,891,604	13,828,997
	100%	441,324,234	-	441,324,234
	150%	47,455,093	-	47,455,093
		570,336,340	66,326,044	504,010,296
Collective investments undertakings	0%	7,248,287	7,248,287	-
		7,248,287	7,248,287	-
Retail	0%	806,436	806,436	-
	75%	1,148,248	-	1,148,248
		1,954,684	806,436	1,148,248
Retail secured by real estate	0%	2,767	2,767	-
	35%	144,768	-	144,768
	50%	804,091	-	804,091
	100%	2,802,461	-	2,802,461
		3,754,087	2,767	3,751,320
Other items	0%	39,779	-	39,779
	100%	92,048,971	-	92,048,971
		92,088,750	-	92,088,750

4.1.1.7 *asset quality*

past due and impaired facilities

"Impaired" facilities are exposures for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s).

On the other hand, "past due but not impaired" facilities are exposures where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

The following table provides details of the Group's gross impaired exposures (excluding related "interest in suspense", "fee income in suspense" and any collateral held or other credit enhancement):

	Loans and advances to Banks 2013 USD	Loans and advances to Customers 2013 USD
Impaired exposures	5,178,378	35,125,380
Past due exposures	-	-
Total	5,178,378	35,125,380

The geographic and industry sector distribution of gross impaired exposures as at 31 December 2013 are as follows:

	Loans and advances to Banks 2013 USD	Loans and advances to Customers 2013 USD
Europe	-	15,539,456
Sub-Sahara Africa	-	-
North Africa & Middle East	-	5,249,719
Commonwealth of Independent States	3,820,026	12,941,003
Others	1,358,352	1,395,202
Total	5,178,378	35,125,380

	Loans and advances to Banks 2013 USD	Loans and advances to Customers 2013 USD
Industrial raw materials	-	5,782,876
Ship pre-demolition	-	-
Wholesale and retail trade	-	12,021,612
Financial Intermediation	5,178,378	-
Others	-	17,320,892
Total	5,178,378	35,125,380

credit reserves

The Group has in place credit reserves that represent its estimate of incurred losses in its loan portfolio. The main components of these reserves are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. Both specific and collective reserves are based on the models laid down in Banking Rules and International Financial Reporting Standards.

specific impairments

Review of all Group exposures is made on an on-going basis and an identification of a facility which encroaches its terms and conditions would trigger a specific impairment process and a possible charge to the credit reserve.

The basis of allocating amounts to the specific credit reserve is dependent on the grading of non-performing exposures assigned in accordance with Banking Rule 09" Measures Addressing Credit Risks Arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions Authorised under the Banking Act 1994". Specific credit reserve calculations are based on discounted cash flow techniques applied to the expected future cash flows.

collective impairments

For those exposures where no individual impairment is identified, the Group takes a charge to a collective credit reserve based on an incurred loss model approach for potential losses. The reserve is calculated as a percentage (%) of unsecured on- and off- balance sheet assets which percentage would be based on the average credit rating of the same assets. Excluded from the model are assets with very low risk potential, including cash assets, deposits with investment grade counterparties and assets carried at fair value (as opposed to amortised cost). Moreover, a reduced charge of 50% is taken on assets covered by a "strong" security, that is to say assets having Immovable Property or Shipping Vessels as collateral.

value adjustments and provisions

The Group's business portfolio comprises assets which are measured at either "fair value" or "amortised cost".

a. Instruments measured at fair value and amortised cost

The accounting measurement of these instruments are set out and explained in detail in note 5 to the Financial Statements for 2013.

b. Changes in the fair value and provisions for impaired exposures

The following table reconciles the total fair value mark downs and provisions for impaired exposures (specific provisions) together with a reconciliation for the financial year ending 31 December 2013:

	Measured at fair value		Measured at amortised cost
	Trading assets	Financial assets designated at fair value through profit or loss	Loans and advances to banks and customers
	USD	USD	USD
Accumulated fair value/provisions at 1 January 2013	3,427,011	1,398,000	11,333,087
Increase in provisions	8,622,200	812,000	5,406,639
Reversal of provisions	(3,379,686)	(2,110,000)	(1,369,444)
Foreign exchange differences	-	-	(39,445)
Accumulated fair value/provisions at 31 December 2013	8,669,525	100,000	15,330,837

4.1.1.8 *Credit derivatives*

The Group does not enter into credit derivative contracts and no such hedges were carried as at 31 December 2013.

4.1.2 *Operational Risk*

Operational risk arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses.

The factors that may contribute to Operational Risk are set out in detail in note 4.5 to the Financial Statements.

4.1.2.1 minimum capital requirement: operational risk

The following table shows the Group's overall minimum capital charges for operational risk in accordance with the Basic Indicator Approach as defined in BR/04 "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994":

	2013 USD
Gross income:	
Financial year ending 31/12/2012	40,040,832
Financial year ending 31/12/2011	37,529,354
Financial year ending 31/12/2010	38,370,275
Average gross income	38,646,820
Capital requirement (15%)	5,797,023
Notional Risk Weight	72,462,788

4.1.2.2 management and mitigation of operational risk

In calculating the capital requirement for Operational Risk, the Group has adopted the Basic Indicator Approach as detailed in paragraph 5 of Section 1.1 of Appendix 4 of BR/04 "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994". Under this approach, the capital requirement for operational risk is equal to 15% of the relevant indicator, being the average over three years of the sum of net interest income and net non-interest income.

In addition to this, and in line with the Basel II framework, the Group assesses whether this resulting capital charge is enough in meeting potential losses arising from operational risks. This is done through the use of a number of risk indicators. Key risk indicators are statistics/metrics, often financial, intended to provide insight on the exposure to the effectiveness of operational risk management or controls. These indicators tend to be reviewed on a periodic basis to alert the Group to changes that may be indicative of risk concerns and may include the number and severity of failed (due to fraud, errors, omissions, etc) transactions, staff turnover rates, systems' down-time, type and materiality of losses, etc. The Group has invested heavily in information technology and disaster recovery and contingency systems to assist its Management to control this risk

At 31 December 2013, the Group took an Operational Risk capital charge as disclosed in Section 4.1.2.1 to this Schedule and note 4.6 to the Financial Statements.

4.1.3 market risk

Market risk for the Group is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk, interest rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management and Mitigation of Market Risk

The Group has implemented policies, established limits as well as maintains currency and interest derivative contracts, aimed at mitigating market risks.

4.1.3.1 foreign exchange risk

Currency risk is mitigated by a closely monitored currency position policy and is managed through matching within the foreign currency portfolio. However mismatches could arise where the Group enters into foreign exchange transactions (say 'foreign currency swaps') which could result in an on-balance sheet mismatch mitigated by an off- balance sheet hedging contract. Other mismatches are allowed up to an established threshold, and any excesses are regularised immediately. The Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies spot or forward rates when considered appropriate.

4.1.3.2 *minimum capital requirement: market risk*

When calculating its capital requirements, the Group also considers its Net Open Foreign Currency Position (Basic Method) in terms of BR/08 "Capital Adequacy of Credit Institutions Authorized Under the Banking Act 1994". Through this approach, each net currency position is analysed and a capital charge is taken on the net short or long currency exposure.

At 31 December 2013, the Group took a Foreign Exchange capital charge as follows:

Foreign Currency	Long position USD equivalent	Short position USD equivalent
Australian Dollar (AUD)	5,240	-
Canadian Dollar (CAD)	941	-
Swiss Franc (CHF)	155,795	-
Danish Kroner (DKK)	2,195	-
Euro (EUR)	-	6,447,560
British Pound (GBP)	-	1,017,530
Japanese Yen (JPY)	-	57,329
Norwegian Kroner (NOK)	6,101	-
Swedish Kroner (SEK)	260	-
Other Foreign Currencies	669,495	-
Total position	840,027	7,522,419
Notional Risk Weight		7,522,419
8% Capital requirement		601,794

4.2 Pillar 1 risks for which no capital allocation is made

4.2.1 *liquidity risk*

Liquidity risk is the risk that the Group may be unable to meet its obligations as they become due because of an inability to liquidate assets or obtain adequate funding ("funding liquidity risk") or that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions ("market liquidity risk").

management and mitigation of liquidity risk

Liquidity risk is managed by maintaining significant levels of liquid funds, and identifying and monitoring changes in funding required to meet business goals driven by management. The Group's ALCO is responsible for establishing appropriate asset and liability management policies, monitoring their application and reviewing financial information on the basis of which investment and funding decisions are taken. The daily application of the asset and liability management policies rests with the Treasury Unit of the Group. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity Risk Management is described in detail in note 4.3 to the financial statements.

Notwithstanding no capital charge is taken under the Pillar 1 Framework, an additional capital charge is taken under Pillar 2 as disclosed in note 4.3.5 to this Schedule.

4.2.2 *exposures to interest rate risk in the non-trading book*

Interest rate risk refers to the exposure of the Group and the Group's financial instruments to movements in interest rates. The risk impacts the earnings of the Group as a result of changes in the economic value of its assets, liabilities and off- balance sheet instruments. The Group's operations are subject to interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or at different amounts.

Accordingly, interest rate risk in the non-trading book is managed through the use of maturity/re-pricing schedules that distribute interest-bearing assets and liabilities into different time bands. The determination of each instrument into the appropriate time period is dependent on the contractual maturity (if fixed rate) or time remaining to their next re-pricing date (if floating rate). This method also referred to as "gap analysis", will eventually portray the Group's sensitivity of earnings and capital to changing interest rates.

A positive, or asset-sensitive, gap arises when assets (both on and off- balance sheet) exceed liabilities in the corresponding time band, and this implies that the Group's net interest income (and therefore capital) could decline as a result of a decrease in the level of interest. To the contrary, a negative, or liability-sensitive, gap implies that net interest income could decrease as a result of an increase in interest rates. Note 4.4 to the Financial Statements details the effect to the Group's assets and liabilities as at 31 December 2013 due to a +/- 100 basis point change in interest rates. .

Notwithstanding that no capital charge is taken under the Pillar 1 Framework, an additional capital charge is taken under Pillar 2 as disclosed in note 4.3.2 to this Schedule.

4.2.3 *non-trading book exposures in equities*

The only Group's exposure to equities is in its non-trading book and such equities are in unlisted entities.

The accounting and valuation methodologies differ depending on the percentage holding and marketability of the instruments.

equity investments less than 10%

Equity investments comprising less than 10% of the investee company's capital are classified as "available-for-sale". All equity securities carried by the group are not listed on an exchange and there is no readily available active market. As such these unquoted securities are carried at cost less impairment losses.

At 31 December 2013, the Group had USD26,476,204 in equity investments. Whilst there is no active market for these investments, fair value has been determined by reference to broker prices, with fair value movement recognised net of deferred tax in fair value reserve

equity investments between 10% and 50%

Equity investments comprising between 10% and 50% of the investee company's capital are classified as "associates" and are accounted for using the equity method (equity accounted investees) and are recognised at cost less impairment allowances.

The Consolidated Financial Statements include the Group's share of the income and expenses and equity movement of equity accounted investees, after adjustments to align the accounting policies with those of the Group. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

This accounting treatment is also applied on those investments where the Group has joint control (50%) over the strategic, financial and operational decisions of the investee.

All investments in associates and jointly-controlled entities are made in line with the Group's strategic objectives of investing in trade-finance related companies.

equity investments exceeding 50%

Equity investments exceeding 50% of the investee company's capital are classified as "subsidiaries" and are fully consolidated in the Group results and financial position. The equity investment in the Group's Financial Statements is therefore replaced by the financial result and position of the subsidiary, net of any minority interests.

unit investments in collective investment schemes

Unit Investments in Collective Investment Schemes are classified as "available-for-sale". These unit investments are not listed on an exchange and there is no readily available active market. Fair value for the collective investment schemes is determined by reference to funds' net asset values, with fair value movement being recognised, net of deferred tax, in fair value reserve.

4.3 pillar 2 risks for which capital allocation is made

4.3.1 *market risk: foreign exchange derivative contracts*

As part of its day-to-day foreign exchange management, the Group enters into foreign exchange derivative contracts to hedge its foreign currency position. These derivative contracts, generally in the form of forward and swap contracts do not form part of a "trading book" and are therefore excluded from Pillar 1 calculations. However, an additional capital charge is taken under the Pillar 2 framework.

The calculation is based on the "marked-to-market" approach as laid down in Annex IV of BR/04 "Capital Requirements of Credit Institutions Authorised under Banking Act, 1994". The percentage capital charge would be dependent on the residual maturity of the contract as at the point of calculating the capital charge as follows:

Residual maturity	Notional risk weight (%)
Less than 1 year	1%
1 year to 5 years	5%
More than 5 years	7.5%

The Group allocated an additional capital charge for foreign exchange derivative contracts under the Pillar II framework as at 31 December 2013.

4.3.2 *market risk: interest rate risk*

The Group assesses the need of allocating capital against interest rate risk, under the Basel II Pillar 2 framework. To evaluate capital exposure, the "repricing gap" resulting from the subtraction of interest rate-bearing liabilities in each time band from the corresponding interest rate-bearing assets is weighted by a factor that is designed to reflect the sensitivity of the positions in the different time bands to an assumed change in interest rates. These weights are based on estimates of the duration of the assets and liabilities that fall into each time band. In its simplest form, duration measures changes in economic value resulting from a percentage change in interest rates under the assumptions that changes in value are proportional to changes in the level of interest rates and that the timing of payments is fixed. For the purpose of this exercise, the Group uses the modified duration model which takes into account the elasticity in interest rates and reflects the percentage change in the economic value of the instrument for a given percentage change in interest rates. A +/- 200 basis point shock is used in the model. As at 31 December 2013, the Group allocated capital for interest rate risk.

4.3.3 *market risk: other price risk*

Other price risk arises out of changes in market values not related to changes in interest rates or foreign currency. Generally, these would be factors directly related to the issuer's or exposure's financial stability and performance.

As set out in note 4.4 to the Financial Statements, the Group's exposure to price risk is considered relevant in the case of bonds and credit linked notes portfolios which are both measured by reference to their quoted market values in active markets. Price risk is deemed to be less relevant for the forfaiting portfolio. These assets do not have observable market prices and their fair value is determined through the use of valuation techniques, including net present value and discounted cash flow models, which require varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instruments. Notwithstanding this, the Group endeavours to mitigate any price risk by building a diversified forfaiting portfolio with different geographical exposures.

For marketable securities, price risk is mainly mitigated by investing in a diversified portfolio of instruments in industries and regions where the Group has specialised knowledge and expertise. The marketable securities portfolio is monitored on a daily basis and decisions to sell assets prior to or to hold until maturity depends on the Group's outlook of the underlying assets as well as liquidity requirements and profit opportunity arising out of the disposal of an instrument.

As disclosed in note 4.4 to the Financial Statements, changes in the market value of marketable securities are recorded in the Group's income statement, directly impacting equity. An increase in the price of instruments would increase the value of the underlying asset and would therefore result in an increase in equity. A decrease in prices would have an opposite effect on both value of instruments and equity.

The Group assess the requirement for a capital allocation against other price risk under the Pillar 2 framework and a capital charge has been allocated against such risks as at 31 December 2013.

4.3.4 *credit risk: concentration risk*

In addition to policies aimed at managing credit risk and concentrations within credit portfolios as set out in note 4.2 to the Financial Statements and Section 4.1.1 to this Schedule, the Group assesses the requirement for an additional capital charge against undesired concentrations across various portfolios. The Group uses the Herfindhal-Hirschmann index (HHI) in assessing concentrations within single/connected counterparties, countries and industries/sectors. A capital charge was allocated against concentrations in industries as at 31 December 2013.

4.3.5 *liquidity risk: concentration risk*

Note 4.3 to the Financial Statements and Section 4.2.1 to this Schedule set out the Group's policies, tools and other mitigants used in managing liquidity risk. The Group also uses the Herfindhal-Hirschmann index (HHI) at assessing the need of capital allocation against concentrations in terms of single/connected counterparties, countries and industries within its funding liabilities. Capital charges against detected concentrations in liabilities help in having the Group's business units more vigilant against concentrations in funding sources. A capital charge was allocated against funding concentrations within industries as at 31 December 2013.

4.3.6 *reputational risk*

Reputational risk is the risk that negative publicity on the Group's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions. Reputational risk could be particularly damaging for the Group since the nature of its business requires maintaining the confidence of depositors, creditors, regulatory authorities and of the general marketplace.

Reputational risk arises from operational failures, failure to comply with relevant laws and regulations - especially Anti–Money Laundering ("AML") and Anti-Terrorism Financing ("ATF") - regulations or from other sources, including acts or omissions of misconduct on the part of its Directors and/or officers and/or representatives overseas, even in matters which are unrelated to their mandate or position within the Group. The impact to the Group for non-compliance with the applicable regulations can be substantial and can include formal enforcement actions, monetary penalties, informal enforcement actions, and enhanced supervisory monitoring.

To this purpose, detailed AML, ATF and fraud documentation policies and procedures, a robust Customer Acceptance Policy as well as a strong and capillary oversight by the Group's Board and Management have been devised. The Group uses qualitative research tools to assess the adequacy of prospective clients and transactions and implemented Anti-Money Laundering software for the screening of incoming and outgoing messages and payments as well as rating of corporate and business relationships. Through such rigid procedures, the Group would be able to identify transactions and clients which pose a higher risk compared to others. These include Politically Exposed Persons ("PEPs"), clients and transactions deriving from a non-compliant jurisdiction and correspondent banking. In addition, reputational risk is also indirectly mitigated through the setting of Country Limits. Some of the criteria used in setting up a transaction limit for particular countries are closely related to reputational risk, including issues relating to the political environment such as the fairness and frequency of election process and access to power and effectiveness in reforming political systems and implementing economic agendas.

The Group has also installed adequate internal monitoring systems to discover any such irregularities on the part of persons who may cause such risk, thus ensuring that persons not maintaining the highest standards of integrity in their activities, even if such activities are unrelated to their position, are not allowed to retain their positions of responsibility within the Group. Moreover, Regulatory authorities require a formalised review process for senior management personnel which results are submitted to the same authorities and also published to the market.

In addition to these mitigants, the Group assesses the need for capital allocation against reputation risk under Pillar II framework. Capital was allocated against reputational risk at 31 December 2013.

4.3.7 *operational risk: legal, insurance and information technology risk*

The Group believes that the rigor applied to the more business oriented risks, should also be applied to the management of operational risks. It seeks to continuously develop an appropriate risk management environment which identifies, assesses, monitors and mitigates operational risk inherent in its products, activities, processes, systems and working environment. This is being achieved by establishing policies, processes and procedures which control or far better mitigate operational risks, identified as material, and at the same time setting up proper internal and external control systems which regularly review and monitors compliance with the established policies and procedures, as set out in note

4.5 to the Financial Statements and section 4.1.2 of this schedule.

Legal, Insurance and Information Technology Risks form part of Operational risk but their importance within the Group's functions and operations merit a separate discussion and capital allocation assessment under the Pillar II analysis. The Group allocated capital against Legal, Insurance and Information Technology Risks as at 31 December 2013.

4.4 pillar 2 risks for which no capital allocation is made

4.4.1 *settlement risk*

The Group faces settlement risk due to the fact that few financial transactions are settled simultaneously or on a same day basis. Consequently, the Group could suffer a loss if the counter-party fails to deliver on settlement date.

The Group controls the deals performed on a recorded line by the dealer and further ensures that the receipt of the deal and the confirmation received from the counter-party are reconciled and matched. This ensures that any settlement risk is identified immediately and that real-time action is taken to rectify any problematic situation.

4.4.2 *strategic and business risk*

Strategic risk is the risk associated with the future business plans and strategies. Improper strategic choices or the actual implementation of strategic decisions, as well as lack of responsiveness to changes in the economic environment, can have a serious and significant impact on prospective profit and capital results. As the Group is mainly engaged in trade finance business, this risk category is intimately connected with the overall performance of international trade in the global economy, and in particular to the level of cross-border trade between countries and in markets that are typically in the developing stages of their economic development and political stability.

Closely linked with the above, Business Risk is the risk associated with the particular business and operating circumstances of the Group, and is more within the control of decisions taken by Management but which nevertheless can have a significant impact on operating and business results.

The Group adopts various ways to mitigate strategic and business risks. Primarily, the Group has in place a "corporate governance" structure composed of both executive and non-executive officials as detailed in the Statement of Compliance with the Principles of Good Corporate Governance, included in the Annual Report for 2013. Based on their remit and charters, the various corporate committees provide advice to the Board in taking ultimate strategic and business decisions. The size of the Group enables its corporate structures to have a more "on the ground" approach and positions and decisions can be formulated and taken in a sufficient timely manner. The Board and Committees are assisted by a team of Executive and Senior Management, who have focused on-the ground expertise in their various areas of responsibilities. Executive and Senior Management hold periodical meetings in order to discuss major business decisions, business and economical trends, as well as implement decisions taken by the Board or any of its Committees. Through these meetings, the collective expertise of the management team is brought together and is a determinant factor in the success of identifying and exploiting business opportunities.

The Group also has a strategic investment policy aimed at providing direction with respect to long-term investments in other entities. This policy is flexible enough to support situations arising in different markets and environments but at the same time provides clear objectives in what constitutes ideal target companies and markets based on the overall risk appetite. This policy also reflects the Group's diversification policy both in terms of products as well as geographical markets.

5 capital and capital adequacy

5.1 regulatory capital

Details on Regulatory Capital are disclosed in note 4.6 to the Financial Statements.

5.2 pillar 1 minimum capital requirements and regulatory ratios

Under the Basel II framework, overall capital requirements have to be calculated and compared with the Own Funds described above. The overall capital requirements are expressed in terms of Risk Weighted Assets ("RWA") whereby capital requirements need to be 8% of RWA.

The Group's minimum capital requirement under Pillar 1 is calculated by adding the credit risk charge to that required for operational risk and the Net Foreign Exchange Position Requirement element of market risk. The FX requirement charge is the amount of regulatory capital required to cover the risk of losses on open foreign currency positions arising from movements in the foreign exchange rate and is calculated in accordance with the Appendix I (BR/08).

The following table shows both the Group's overall minimum capital requirement and capital adequacy position under Pillar 1:

	Risk weighted assets 2013 USD	Capital required 2013 USD
Capital Requirements		
Credit Risk (Section 4.1.1.1)	953,122,258	76,249,781
Operational Risk (Section 4.1.2.1)	72,462,788	5,797,023
Market Risk (Section 4.1.3.2)	7,522,419	601,794
Total Capital Requirements Pillar 1	1,033,107,465	82,648,598
Total Own Funds	132,333,456	
Capital Ratios	%	
Tier 1 capital	12.81	
Total capital	12.81	

Tier 1 capital and the Group's total capital is 1.6 times the minimum capital requirement in terms of BR/04.

5.3 internal capital adequacy assessment process ('ICAAP')

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group implemented BR/04 "Capital Requirements of Credit Institutions Authorised under the Banking Act 1994", thereby becoming compliant with respect to Pillar 1 capital requirements under the Basel II framework, adopting the standardised approach to allocate capital against credit risk. Basel II also introduces capital requirements for market risk and operational risk calculated under the basic indicator approach.

The second pillar of Basel II (Supervisory Review and Evaluation Process) involves both banks and regulators taking a view on whether a bank should hold additional capital against risks not covered in Pillar 1. Part of the Pillar 2 process is the Internal Capital Adequacy Assessment Process ("ICAAP") which is the bank's self assessment of risks not captured by Pillar 1.

The ICAAP process is managed by the Group's Finance Department which is responsible for the preparation, formulation and overall coordination of this document. Inputs are received as appropriate by other relevant departments, including but not limited to the Risk Management, Legal, Treasury, IT, Administration, Human Resources and Operations departments. Each of these departments has a direct connection with one or more risks, policies and procedures analysed and assessed in this ICAAP.

Throughout this process, senior officers from each department provide their input and guidance on how risks are being mitigated and how these risks can be analysed and assessed both in a qualitative as well as quantitative manner. The final document is subjected to a review by the Group's Internal Audit department, and the findings arising from this review are documented in an "Auditors' report".

The final version of the ICAAP is eventually discussed by the Audit Committee before being presented to the Board of Directors, and following its recommendation, it is ultimately approved.

directors and senior management

board of directors

John C. Grech (Chairman)
Masaud M.J. Hayat
Hamad Musaed Bader M. Al-Sayer
Majed Essa Al-Ajeel
Eduardo Eguren Linsen
Adrian Alejandro Gostuski
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first executive vice president	Marcel Cassar	Chief Financial Officer
executive vice presidents	Michael Davis	Chief Operating Officer & MLRO
	Ivan Fsadni	Chief Risk Officer
	Silvio Mifsud	Chief Information Officer
	Aly Siby	Head of Centre of Excellence & Group Coordination
senior vice presidents	Giovanni Bartolotta	Head of Risk Management
	Bruno Cassar	Head of Human Resources
	Nigel Harris	Head of FIMBank DIFC Branch
	Mike Marnell	Head of Structured Commodity Finance
	Ronald Mizzi	Head of Finance
	Carmelo Occhipinti	Head of Financial Management
	Richard Scerri	Head of Internal Audit
	Charles Wallbank	Head of Banking Operations
	Toufic Yafaoui	Head of Treasury & Capital Markets
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	Jason Zammit	Administration & Head of Public and Media Relations
	Corinne Lanfranco	Head of Financial Institutions and Deposits
	Olivia Mercieca	Head of Trade Finance Middle Office
	Chris Trapani	Head of Central Customer Operations
	Antonio Salgueiro	Head of Mediterranean Factoring
	Loranne Pace	Head of Operational Change Management
	Noel Galea	Head of Compliance
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	Gilbert Coleiro	I.T. Infrastructure
	Joe Rodgers	Trade Finance
	Sylvia Schmitz	Business Management
	Willem Steenkamer	Leasing
	Peter Zammit	Risk Management

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	Tony Knight	Head of Trading
company secretary	William Ramzan	Head of Finance
senior manager	Sandro Valladares	Trading and Marketing
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	Irina Babenko	Representative, LFC Moscow
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senior management - menafactors limited

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first vice presidents	Venkatesh Krishnamurthy	Head of Risk Management and Credit Administration
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